FINANCIAL TIMES

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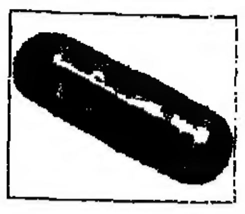

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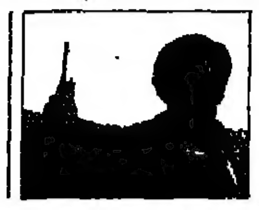

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WORLD NEWS

UK and Germany in move to co-ordinate centre-left policies

Regular meetings are planned between German and British ministers to discuss policy co-ordination. Their forthcoming joint report, The Way Forward for Europe's Social Democrats, will be a further mark of the growing closeness of the two centre-left governments. Page 16

Schröder elected as party chairman
Gerhard Schröder, the German chancellor, was elected chairman of his Social Democratic party with a high, but not overwhelming, majority indicating he still had to win round the hearts and minds of many party members. **Europe, Page 2**

Test may not hit sanctions hopes
US officials described India's weekend ballistic missile test as regrettable but suggested that the launch would not necessarily set back Indian efforts to get US nuclear sanctions lifted. **Asia-Pacific, Page 8**

No end in sight for Ulster impasse
There was little sign of agreement between the pro-British *Ulster Unionists and Sinn Féin*, the IRA's political wing, on the eve of further Northern Ireland talks. *Britain, Page 10*

Israel takes softer line on Russia
Israel said it would no longer lobby the US Congress to press for sanctions on Russia to curb the transfer of sensitive technology for Iran's nuclear missile programme. **International, Page 6**

Mahathir released from hospital
Mahathir Mohamad, Malaysia's prime minister, was due to start work after being released from hospital after treatment for bronchitis. **Asia-Pacific, Page 8**

Bias claims on eve of Algeria poll
The campaign for Algeria's presidential election drew to a close amid allegations of administrative bias towards Abdelaziz Bouteflika, the former foreign minister. **International, Page 6**

Banker hopes to be Macao chief
Stanley Au, a 58-year-old banker, launched his bid to become the first chief executive of Macao, the Portuguese enclave set to return to mainland Chinese rule. **Asia-Pacific, Page 8**

Duma delays debate on Yeltsin
The Duma, Russia's lower house of parliament, postponed a debate on launching impeachment proceedings against President Boris Yeltsin until the middle of May. **Europe, Page 3**

Turkey delayed on pipeline deal
Turkey conceded it was unlikely to seal a multi-billion dollar pipeline agreement before elections on Sunday. **Trade, Page 4**

McDougal free after trial
Susan McDougal, the Clinton's former Whitewater partner, was found innocent of obstructing Kenneth Starr's Whitewater investigation and the judge declared a mistrial on two more charges against her. **US, Page 9**

French boss in court over pay
An executive in a leading French company – a subsidiary of defence electronics group Thomson-CSF – appeared in a Versailles court accused of letting staff work overtime without proper pay. **Europe, Page 3**

BUSINESS NEWS

Kvaerner group considers selling off its shipyards

Kvaerner, the troubled Anglo-Norwegian engineering and construction group, has drawn up plans to sell off its shipbuilding activities. The prospective disposal of 12 shipyards in Europe, North America and south east Asia could signal the break up of one of the world's largest commercial ship manufacturers. **Companies and Markets, Page 17**

Hopes that Telecom Italia would attract a "white knight" to fend off a hostile €60.4bn ($65bn) bid from Olivetti were fading as potential saviours distanced themselves from Europe's biggest takeover battle. **Companies and Markets, Page 17**

The Chinese Academy of Sciences' software engineering centre has launched an operating system called 'Nuwa' to compete with Microsoft's 'Venus' project. **Trade, Page 4; Internet music plan, Page 9**

Varig, the Brazilian airline, has hired Bankers Trust to help it renegotiate $1.8bn in debts owed to banks, leasing companies and suppliers. **Latin American companies, Page 18**

Deutsche Bank has acquired a 9.9 per cent stake in BIG Bank Gdanski, Poland's fifth largest bank and one of the few remaining listed banks without a strategic foreign investor. **European companies, Page 21**

CBS continued its rapid-fire expansion drive with three deals worth almost $900m extending its interests in internet retailing and entertainment and adding a Dallas TV station to its collection. **US companies, Page 18**

Mutual Life, the first Canadian life assurance company to announce plans to demutualise, said its estimated initial market value would be C$1.9bn-C$2.9bn (US$1.25bn-US$1.92bn). **Canadian companies, Page 18**

British Land, the UK property company, is to launch the largest ever European property securitisation bond, a £1.54bn ($2.5bn) issue securitised on the rental income of 12 properties in London. **UK companies, Page 24**

Renault has not ruled out a sale of Nissan Diesel, the troubled truck-making arm of Japan's Nissan Motors, the French carmaker's chairman Louis Schweitzer said. **European companies, Page 21**

The WTO will meet next Monday to give Washington approval to impose sanctions of nearly $200m on European goods in the long-running US-EU banana dispute. **Trade, Page 4**

Japan's 10 leading banks recovered only 22.5 per cent of their bad loans in the first half of fiscal 1998 – down steeply from the previous year. **Asia-Pacific news, Page 6**

Lex on takeovers
Wrangles over new European code
Page 16

Nato to focus on plight of refugees left inside Kosovo

Hundreds of thousands trapped by conflict are feared starving

By Neil Buckley and Alexander Nicoll in Brussels and Guy Dinmore in Belgrade

Nato signalled it would urgently study ways of getting food to hundreds of thousands of refugees trapped *inside Kosovo, as it* intensified efforts yesterday to involve Russia in the search for a *solution to the Yugoslav crisis.*

The concerns about another looming humanitarian disaster *within Kosovo's borders* were voiced as foreign ministers of the 19 Nato countries put on a display of unity in Brussels.

They vowed to continue their air campaign against Yugoslavia "for as long as it took" to persuade Slobodan Milosevic, the Yugoslav president, to accept Nato's five demands. These include pulling his forces out of Kosovo and allowing refugees to return under protection of an international security force.

"The message is clear," said Javier Solana, Nato secretary-general, "Nato is united, we have justice and right on our side and we will prevail."

But in a propaganda setback, the alliance admitted last night it had caused a train crash in Serbia near the Kosovo border in which, Serbian officials said, at least 10 civilians, including a child, had been killed.

Nato insisted the bridge, at Gredelica, south of Nis, was part of the supply lines for Yugoslav forces and there was no intention to hit the train.

In Belgrade, Yugoslavia's parliament, meeting for the first time since Nato launched its air campaign last month, voted overwhelmingly yesterday to apply to join a pan-Slav alliance with Russia and Belarus. Representatives of the Yugoslav republic of Montenegro boycotted the vote.

Vuk Draskovic, Yugoslav deputy prime minister, said Nato's attacks had given his country no choice. "We Serbs wanted to be part of the European Union and Europe attacked us," Mr Draskovic said in an interview. "We are forced to offer our state as part of the Russian empire and fall under the Russian umbrella against Nato."

Analysts in Belgrade said the vote was largely of symbolic importance.

In Brussels, Nato foreign ministers instructed military commanders to look urgently at ways of getting food and aid to up to 700,000 people driven from their homes in Kosovo. About 250,000 are now thought to be living in the open.

Options to be considered include air drops of food, although these are hazardous, or the use of non-governmental organisations to gain access to the province.

Madeleine Albright, US secretary of state, said Mr Milosevic would be brought to account for any harm suffered by refugees in Kosovo.

Mrs Albright will meet Igor Ivanov, the Russian foreign minister, in Oslo today after several alliance members warned that Russia had to be involved in efforts to find a political solution to the Kosovo crisis.

Their comments followed warnings on Friday from Boris Yeltsin, the Russian president, that Nato should "not push us too far".

Kosovo crisis, Page 2;
US budget tensions, Page 9;
Editorial Comment, Page 15

Chinese prime minister Zhu Rongji exchanges mock trading signals with traders after a ceremonial bell-ringing in the eurodollar futures pit at the Chicago Mercantile Exchange yesterday. Mr Zhu, in the second week of a six-city tour of the US, rang the bell and flashed the Chinese hand signal for "good fortune" Reuters

France lobbies to secure EU competition portfolio

By Emma Tucker in Brussels and Robert Graham in Paris

French lobbying to secure one of the most powerful posts in the European commission is set to trigger a dispute over appointments following the mass resignation of commissioners last month.

France is trying to secure the job of European competition commissioner – whose reach often extends beyond European borders to cover international deals with a significant impact on the European market – for a French national.

EU heads of government meet in Brussels tomorrow to discuss the remit of Romano Prodi, the commission president-designate, but France's early pitch for the competition job has already ruffled British feathers and alarmed competition officials.

"There is a very serious push by the French up to the very highest levels," said an EU *diplomat.*

The tension gives a foretaste of the hard bargaining that will ensue in the coming weeks as Mr Prodi attempts to piece together a new team following the resignations in the wake of fraud and mismanagement allegations.

British officials indicated that the UK would strongly resist French demands for the competition portfolio because of fears that a French commissioner would not assess cases in an even-handed way, particularly those involving state aid.

France is third in the EU league table of government subsidies to manufacturers, behind Germany and Italy, and has been at loggerheads with the Commission for years over large capital injections to bail out the troubled state-owned bank Crédit Lyonnais.

France is expected to point out to Mr Prodi that it is fully converted to the competition cause, presides over its own competition policy and has improved its record on subsidies.

French officials yesterday *refused to comment* on negotiations, but in private several admitted *France* was interested in gaining the competition post, one of the few commission portfolios that the country has never held.

France argues that competition has been in British and German hands for too long and that it is now its turn to take control of the area.

The competition commissioner presides over all the mergers, joint ventures and state aid cases submitted for Commission approval, but also has the power to launch investigations into suspected cartels and abuses of dominant positions. The commissioner's recommendation on cases is almost always followed by the full commission.

Traditionally the post has gone to commissioners from small countries. Karel Van Miert, a Belgian, is the current acting commissioner.

"The idea of having a commis*sioner from a country which* produces a steady stream of cases is a bit daunting," said an EU *official.*

Lex, Page 16

Swedish government in turmoil as finance minister walks out

By Tim Burt and Nicholas George in Stockholm

The Swedish government was thrown into turmoil yesterday by the abrupt resignation of Erik Asbrink, the finance minister, after an acrimonious row with the prime minister over tax reforms.

Mr Asbrink quit after accusing Göran Persson of undermining his position on a series of policy issues – culminating in a weekend television interview in which the prime minister hinted at tax cuts of SKr15bn-SKr20bn ($1.8bn-$2.4bn) next year.

The departure of Mr Asbrink, finance minister since 1996, came two days before he was due to reveal the spring budget and was described by Swedish economists as a "body blow" for the government. Opposition politicians called for a snap general election.

At a hastily arranged press conference in Stockholm, Mr *Asbrink said he no longer* enjoyed the support or confidence of the prime minister. "Over a period this has made my task as finance minister impossible," he added.

The fiscally prudent Mr Asbrink favoured only limited tax cuts beginning in 2001. But the prime minister, his predecessor as finance head, made clear that a growing surplus in public finances could permit more rapid tax reform. Sweden has the highest income taxes in the industrialised world, with a top marginal tax rate of 56.7 per cent and a general rate of 36.4 per cent.

Mr Asbrink said the prime minister's comments had come as a complete surprise, adding that they were based on economic forecasts that conflicted with those to be announced by the government in its budget tomorrow. He said the prime minister had made the budget irrelevant.

Mr Persson admitted there had been differences with his finance minister but said the broad thrust of economic policy would remain unchanged. "We had a conflict, but I am puzzled by his resignation. He has been a famous tax reformer," he added.

He yesterday named Bosse Ringholm, the relatively unknown chairman of the National Labour Market Board, as the new finance minister, traditionally the second most influ*ential post in Swedish govern*ment. Mr Ringholm said there would be no changes to the budget and sought to reassure the markets that he would continue with the multi-party negotiations on reforming fiscal policy.

Stocks fell almost 1 per cent to 3,524.90 points, with banks and financials worst hit.

Resignation exposes rifts, Page 3
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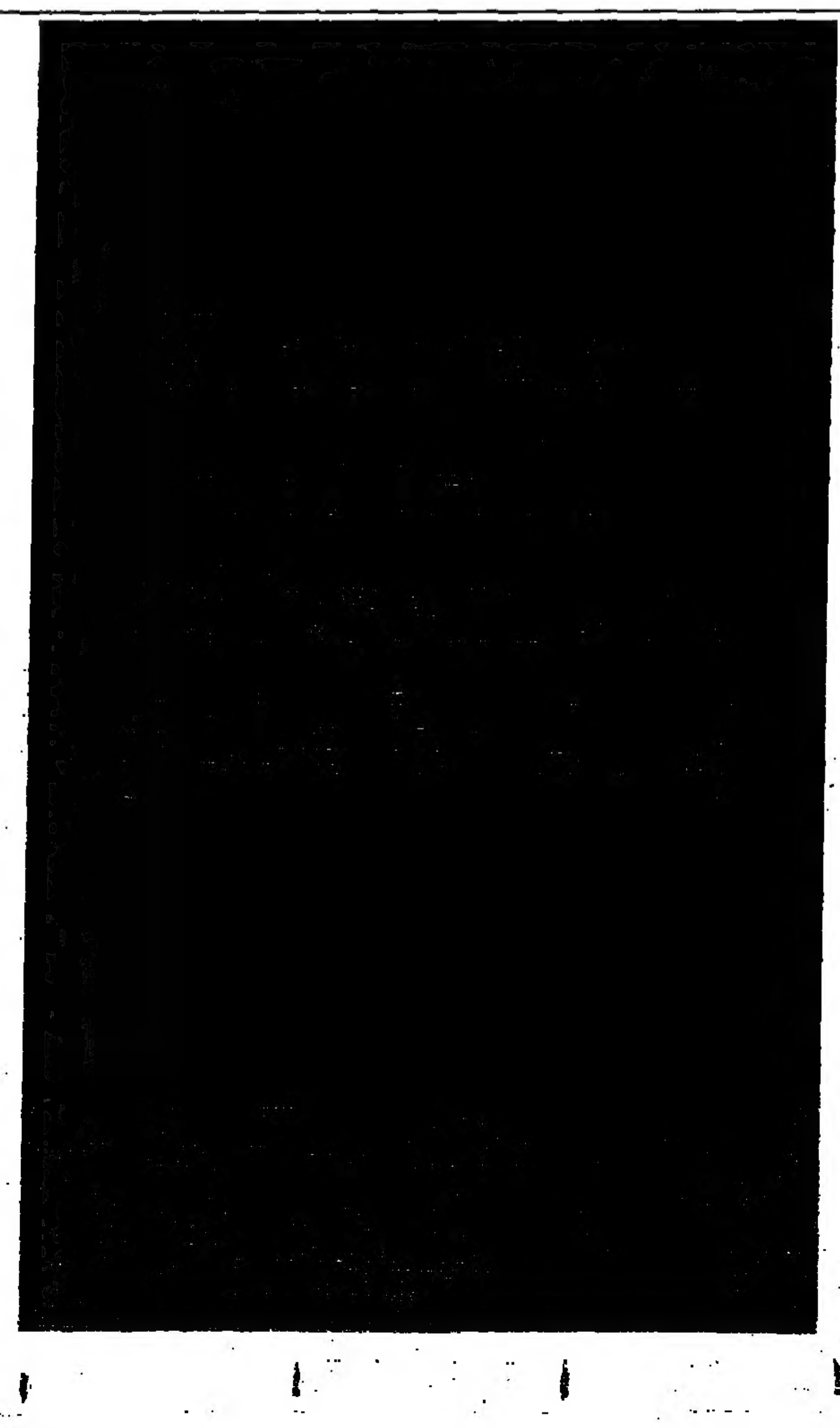

WORLD MARKETS

STOCK MARKET INDICES			**GOLD**		
New York Lunchtime			**New York Comex**		
Dow Jones Ind Av	10226.01	(+62.17)		$282.8	(281.5)
NASDAQ Composite	2580.23	(-2.82)	**London**		
Europe and Far East				$283.55	(282.1)
CAC40	4355.00	(-8.14)	**DOLLAR**		
DAX	5159.16	(+34.98)	**New York Lunchtime**		
FTSE 100	6441.2	(-31.6)	£	1.6147	
FTSE Eurotop 300	1289.89	(-4.91)	€	0.9222	
Nikkei	16507.40	(-348.23)	SFr	1.4787	
US Lunchtime RATES			Y	120.025	
Federal Funds	4¾%		**London**		
3-mth Treas Bills: Yld	4.33%		£	1.6148	(1.6057)
Long Bond	97⅞		€	0.9219	(0.9279)
Yield	5.44%		SFr	1.4778	(1.4860)
OTHER RATES			Y	120.135	(121.095)
UK: 3-mo Interbank	5¼%	(5¼%)	**Tokyo Close**		Y 120.6
UK: 10 yr Gilt	111.51	(111.56)	**EURO (London)**		
Euro Euribor	2.661	(2.66)	$	1.0847	(1.0777)
Germany: 10 yr Bund	99.72	(99.4)	£	0.6717	(0.6712)
Japan: 10 yr JGB	103.136	(102.802)	Y	130.311	(130.498)
NORTH SEA OIL (Argus)			SFr	1.6004	(1.5948)
Brent Dated	$14.46	(14.33)			

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr265	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3800(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.60	South Africa	R16
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325(€1.95)
Finland	FMk13.00(€2.19)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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Slavic union offer 'largely symbolic'

By Andrew Jack and John Thornhill in Moscow and Guy Dinmore in Belgrade

The offer by Russia and Belarus to include Yugoslavia in a three-way Slavic union has enormous symbolic significance but little practical impact, according to political leaders in Moscow and Minsk.

The move highlights the depth of feeling in Russia and Belarus to help their Serbian "brothers" but also illustrates the limited options available to them.

While forcefully condemning Nato's attacks on Yugoslavia, Russia and Belarus have made clear they will not be sucked into any military confrontation in the Balkans.

Both countries are also in a poor position to provide material aid to Yugoslavia because of the parlous state of their economies.

Igor Ivanov, the Russian foreign minister, said Russia looked favourably on the idea of Yugoslav participation in the union while giving few details of a timetable or exactly how such a political entity might operate.

In Minsk, Vladimir Konoplev, vice speaker of the lower house of parliament, said his compatriots were keen to show their solidarity with Yugoslavia but also highlighted the practical difficulties of forging a meaningful political union.

"Yugoslavia finds itself today in profound isolation and needs moral and political support more than ever," he said. "I think that the majority of Belarussans and Russians will support this union."

Yugoslavia's parliament, meeting for the first time since Nato launched its air campaign, voted overwhelmingly yesterday to apply to join a pan-Slavic alliance with Russia and Belarus.

The driving force behind the vote was Vojislav Seselj, leader of the ultra-nationalist Radical party who had campaigned for the alliance a year ago but apparently only recently got the support of President Slobodan's Milosevic's Socialists, the dominant party in the twin Serbian and federal Yugoslav governments.

Vuk Draskovic, a Yugoslav deputy prime minister said yesterday Russia's foreign minister, Mr Ivanov, was in a very strong position going into talks in Oslo today with Madeleine Albright, the US Secretary of State.

"There is a tremendous explosion of emotions in Russia to do something more effective to protect Serbia. There is a great danger of Ivanov and Yeltsin losing power," he said.

Gennady Zyuganov, leader of the Russian communist party, was "half-way to the throne", he added.

Mr Milosevic, whose brother Boris is Yugoslavia's ambassador to Moscow, was hoping for a change in power in Russia that would lead to military support for Belgrade.

It was Gennady Seleznyev, the Communist speaker of the Duma, the Russian lower house of parliament, who raised the idea of a union last Friday after meeting Mr Milosevic.

Mr Seleznyev also suggested that the idea had been received positively by President Boris Yeltsin.

Striking a note of caution, however, Sergei Prikhodko, Mr Yeltsin's chief foreign policy adviser, said on Russia radio yesterday that "the main emphasis now is on deepening the Russian-Belarus union".

He added that the inclusion of other countries could be taken "only after in-depth analysis of the entire legal situation and considering the national interests of Russia".

Russia and Belarus, both former Soviet republics, began seriously discussing a union in 1996 in the build-up to Mr Yeltsin's re-election campaign.

Alexander Pikaev of the Carnegie Moscow Centre said the initiative reflected Mr Yeltsin's desire to be seen as "not just the master of the collapse of the Soviet Union but someone capable of integrating countries".

He said the union had already led to a simplification of customs and passport controls between the two countries, Russian assistance along the Belarus border with Lithuania, and limited attempts at economic union.

Nato ministers ponder future of Kosovo

By Alexander Nicoll and Neil Buckley in Brussels

Nato foreign ministers yesterday turned their attention to the longer term for Kosovo, admitting that arrangements set out in peace talks at Rambouillet in France would have to be amended in the light of Serbia's expulsion of hundreds of thousands of ethnic Albanian Kosovars from their homes.

Madeleine Albright, US Secretary of State, called for an "integration strategy", telling fellow Nato foreign ministers in Brussels that "our explicit goal should be to transform the Balkans from Europe's primary source of instability into an important part of its mainstream.

Javier Solana, Nato secretary-general, said ministers agreeing a comprehensive approach to stabilising the region "should address the political, economic, security and humanitarian aspects". It would involve a number of institutions "but Nato will have its role to play".

Hubert Védrine, France's foreign minister, said the main principles of Rambouillet remained applicable but it would need to be amended to reflect the refugee situation. The UN Security Council would play a key part in reconstruction efforts, he said, and a Nato official agreed a UN mandate would be essential for a planned peacekeeping force as in Bosnia.

Nato's precise presence in that force is one of the immediate issues, with ministers apparently backing off slightly from insisting it be led in name by Nato. This may be intended to attract Russian involvement – ministers have stressed repeatedly their desire to have Moscow play a full role in the solution for Kosovo.

Mrs Albright and Robin Cook, UK foreign secretary, said Nato troops would form the core of the force, which under present plans would number 30,000, and would come under Nato's military command structure. However, Mr Solana conceded "it may have another label".

A second important issue will be the status of Kosovo, which under the Rambouillet terms (signed by Kosovar Albanian representatives but not the Serbian government) was set to gain a substantial degree of autonomy but to remain part of Serbia.

There have been suggestions that in light of the Serbian offensive against the Kosovars it should become an international protectorate. Ministers stressed the primary goal was to secure the return of refugees to their homes.

"There are discussions going on about how to achieve our goals," Mrs Albright said. Partition of Kosovo was not an option, several ministers said.

Nato's objectives, affirmed at the Brussels meeting, are to obtain a verifiable stop to all military action in Kosovo, withdrawal of all Yugoslav forces, stationing of an international military presence, unconditional safe return of all displaced people, and assurance of Belgrade's willingness to work within the Rambouillet framework.

A further uncertainty is the point at which Nato would consider it appropriate to send in its peacekeeping force.

Nato is united in not planning a hostile invasion, saying it would only send ground troops into a "permissive environment".

However, this could mean simply that Serb forces were no longer in any condition to resist – a point which military commanders say is still some way off.

ALBANIAN BORDER MORTAR ATTACKS CONTINUE

Yugoslavia accused of widening conflict

By Stefan Wagstyl in Tirana

Albania yesterday accused Yugoslavia of trying to spread conflict beyond its borders after at least three Albanians were killed and about 16 others were wounded when Serb forces fired mortars across the Yugoslav-Albanian frontier.

The shelling of the frontier village of Tropoje started late on Sunday and continued yesterday with explosions heard all day.

The attack came after three days of fighting in the region between Serb forces and guerrillas of the Kosovo Liberation Army, which infiltrates Kosovo from bases inside Albania.

Three Albanian villagers died on Sunday and there were unconfirmed reports of two more deaths yesterday, according to the Organisation for Security and Co-operation in Europe, which monitors the border. Also, since Friday four KLA fighters have been killed on the Albanian side of the frontier and three injured.

A Frenchman, possibly a journalist covering the KLA, has been seriously hurt.

Paskal Milo, the Albanian foreign minister, accused Yugoslavia of attempting to provoke a wider conflict to distract attention from the ethnic cleansing in Kosovo. He urged Nato to use Albania as a base not only for humanitarian aid operations but also for attacks against Yugoslavia.

Nato is deploying 8,000 troops in Albania in operation Allied Harbour to support relief operations for Kosovar refugees. Its local commander, Lieutenant General John Reith of the UK, head of Allied Command Europe Mobile Force/Land, has established a base in Tirana.

Nato troops are already active, notably at Tirana airport, where they have set up facilities including a field hospital. Nato must cope with the fact that the Tirana government's writ is weak in certain regions, including the northern border, where the KLA is based.

The KLA operates openly in Albania, the only country which recognises Kosovo's independence.

The KLA's operational freedoms are not covered by any formal agreements with Tirana, in contrast to Nato's, which were approved last week by parliament. Gramoz Pashko, the prime minister's adviser, said: "The KLA don't have permission. They just do it. Albania is a very weak state... They (the KLA) are Albanians. It would be shameful not to host them." The support extends to caring for wounded KLA fighters.

Ismail, one of the men wounded over the weekend was yesterday recovering in a Tirana military hospital. The 28-year-old guerrilla, hurt by a grenade as he was heading out of Kosovo, said: "I am determined to return to the fighting as soon as I can."

Tirana has been careful to avoid whipping up pan-Albanian sentiment by proclaiming support for the KLA too loudly and possibly inviting Serb retribution. Instead, ministers have said Albania's role lies in co-operating with Nato.

The government hopes that by sheltering under the Nato umbrella it can limit Albania's direct exposure to possible Serb attacks. Ministers also think that close co-operation with Nato could eventually help Albania's entry into the alliance, though this is unlikely to happen soon.

However, the government is also concerned that the country should not be turned into a Nato protectorate, even though it has granted control of its airport, ports and other strategic points to Nato.

Meanwhile, Tirana put at $800m the estimated cost of caring for refugees to the year-end. This includes $600m in direct humanitarian costs to be borne by international aid agencies and $200m in Albanian government costs, which covers health care, education and similar services as well as tax losses caused by economic disruption. The estimate is based on 400,000 refugees, compared with some 300,000 now in Albania.

Ethnic Albanian refugees from Kosovo take shelter yesterday from the blast caused by a US helicopter as it takes off after delivering rations to a camp near Kukes in northern Albania AP

War expected to overshadow EBRD talks

By Kevin Done, East Europe Correspondent

The war in Yugoslavia is expected to overshadow the annual meeting of the European Bank for Reconstruction and Development (EBRD), beginning in London at the weekend amid concern about growing risks for investment in the region.

Horst Köhler, EBRD president, said yesterday that the bank would talk with other international institutions at the meeting to discuss support for investment in countries bordering Yugoslavia - especially Albania, Macedonia and Bosnia-Hercegovina.

The EBRD has to date committed €256m ($278.2m) to 24 projects in the three countries. Mr Köhler said "every effort" would be made to safeguard these projects. "We are committed to preparing further efforts to contribute to the restructuring process after the crisis."

Before the conflict erupted, said Mr Köhler, the bank had "a strong pipeline of potential new investments" totalling close to €100m in the three countries most affected by the Kosovo crisis, excluding Yugoslavia itself.

After the former Yugoslavia collapsed in 1991 and 1992, the former Yugoslav republics of Slovenia, Croatia, Macedonia and Bosnia-Hercegovina became members of the EBRD in their own right.

Rump Yugoslavia, comprising Serbia (including Kosovo) and Montenegro, has remained excluded as part of the "outer wall" of financial sanctions agreed in the 1995 Dayton peace accord, as part of efforts to persuade Belgrade to agree to reforms in Kosovo.

Yugoslavia is the only part of former communist east Europe that is not a country of operations for the EBRD. It also remains excluded from International Monetary Fund and World Bank membership.

Mr Köhler said that any plan for future EBRD investments in Kosovo would "depend on political developments".

The conflict would have an adverse effect on the economic development of the Balkan region, and followed the economic and financial crisis in Russia, which had seriously undermined the economic development of east Europe last year.

The economic environment in the region had "abruptly changed" in the past year.

Mr Köhler said the EBRD was forecasting a further fall of about 5 per cent in gross domestic product in Russia this year and a fall of 4 per cent overall in the Commonwealth of Independent States (CIS), with output also declining in Belarus, Kazakhstan, Moldova and Ukraine.

Growth in central and east Europe (excluding the CIS) is forecast to remain at about 3 per cent this year despite continuing recession in Romania.

The Russian crisis pushed the EBRD into a net loss of €261.2m ($304m) last year, its first loss for six years, as it was forced to more than triple provisions to €558.1m, largely because of Russia.

Annan ready to talk to Milosevic

By David White in Madrid

Kofi Annan, United Nations secretary general, said yesterday he had not abandoned hope of securing a Kosovo peace deal and would be ready to talk directly to Yugoslavia's President Slobodan Milosevic.

Mr Annan said he had sent a personal message to Mr Milosevic last Friday, at the same time as putting forward a five-point proposal involving the deployment of a broadly based international force in Kosovo.

"I have not heard from him, of course," he said during a visit to Madrid. "But I have not given up."

Mr Annan also described Moscow as playing a "constructive" role in the crisis and said: "It is essential that we work with them."

His five-point proposal, made in Geneva, called on Yugoslavia to cease "intimidation and expulsion" of civilians from Kosovo, halt its military activity and withdraw troops, allow refugees to return, accept the deployment of an international force in the province and allow its compliance to be monitored. By "international" he implied a force including non-Nato troops.

If Belgrade accepted all these conditions, Mr Annan would urge Nato to stop its bombing of Yugoslavia. He said he hoped Mr Milosevic would take the proposals seriously.

José Maria Aznar, Spain's prime minister, voiced support for the UN plan. At the same time, he said Spain would take part in Nato troop deployments to Albania to help refugees from Kosovo.

GERMAN POLITICS CHANCELLOR ELECTED CHAIRMAN OF GOVERNING PARTY

Schröder backed as SPD head

By Haig Simonian in Bonn

Gerhard Schröder, the German chancellor, was yesterday elected chairman of his governing Social Democratic party with a high, but not overwhelming, majority indicating he still had to win round the hearts and minds of many party members.

Nearly 76 per cent of delegates at a special congress backed the chancellor. However, the proportion was one of the lowest in the SPD's history, reflecting residual resistance and suspicion towards Mr Schroder, especially among leftwingers.

The chancellor acknowledged the task ahead of him in self deprecatory remarks. He admitted it would take time to get the party to love him, and that his election margin – which he had described in a weekend interview as satisfactory – left space for improvement. "This result is better than I'd expected, but could go up. I'll try to do that through hard work".

However, Mr Schröder's growing hold over the party was reflected in delegates' easy rejection of leftwing attempts to water down a motion backing Germany's involvement in Nato military action against Yugoslavia.

The chancellor and Rudolf Scharping, defence minister and deputy party chairman, deflected a leftwing and pacifist attempt to rule out any use of German ground troops in any fighting.

However both emphasised Bonn had no intention of deploying troops.

Devoting at least half his one hour speech to Kosovo, the chancellor stressed the need to find a political solution to defuse tension once the fighting was over.

He said that would require two things: a much bigger Russian role and massive financial aid from the west.

Calling for a new Marshall plan for the region, he accepted Germany would have to shoulder much of the financial burden.

"But war is even more expensive".

Mr Schröder said he talked constantly with Boris Yeltsin, the Russian president, and Yevgeny Primakov, the prime minister.

Bonn has in the past week called for a special summit meeting of the Group of Seven leading western industrial nations and Russia to discuss the crisis.

However, he denied such initiatives represented any dilution of Germany's commitment to Nato. Before the crucial vote on the Kosovo motion, the chancellor called on dissidents in his party not to weaken the government after Bonn had won such standing among Nato partners for its resolute approach.

Despite the chancellor's oratory, the warmest applause went to Erhard Eppler, a veteran SPD leftwinger, who strongly backed the government line.

In an emotionally charged address, Mr Eppler said he and others who had marched in the 1960s against war had come to recognise dictators had to be shown, "that there is always someone stronger".

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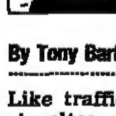
Industrial production up 1.5%

German industrial production rose 1.5 per cent in January and February compared with the last two months of 1998, according to Bonn finance ministry figures yesterday, writes Ralph Atkins in Bonn.

Although the figures are volatile and could have been helped by the weather, they lifted hopes Germany would avoid a fall in gross domestic product in a second consecutive quarter, after a 0.4 per cent drop in the last three months of 1998.

Rate cut raises issues of growth

A move to apply a stimulant to the euro-zone economies or an exercise of Bundesbank-style focus on anti-inflationary priorities?



ECB watch

By Tony Barber in Frankfurt

Like traffic lights flashing simultaneously red and green, the latest signals from the European Central Bank are as intriguing as last week's interest rate cut.

The bigger than expected 0.5 percentage point cut in the ECB's main refinancing rate last Thursday led many economists to conclude that the young bank was already displaying sensitivity to the need to stimulate economic growth in the euro-zone.

In this respect, its behaviour struck some as more akin to that of the US Federal Reserve under Alan Greenspan than to that of Germany's Bundesbank in its anti-inflationary heyday.

Yet two ECB executive board members, Otmar Issing of Germany and Sirkka Hamalainen of Finland, took pains last weekend to deny that concern for economic growth had prompted the cut from 3 per cent to 2.5 per cent. "The future development of prices and monetary aggregates are the two pillars of our stability-oriented monetary policy strategy," Mrs Hamalainen said. "Neither economic growth nor business confidence count as goal variables for us."

A similar message came from Mr Issing. "Price stability is the ECB's priority goal. The [European Union's] Maastricht treaty is much clearer about this than was the Bundesbank's statute."

These remarks contrasted with the explanation given for the rate cut by Wim Duisenberg, the ECB president. He said the move was intended to help create a climate in which the euro-zone's growth potential could be exploited.

Moreover, he played down the fact that annual M3 money supply growth is running faster than the ECB's so-called reference value of 4.5 per cent. In pre-euro times, a Bundesbank president might not have been so relaxed about the money supply.

With Germany, Italy and some other euro-zone economies in less than prime health, and with hardly any inflationary threat in sight, it made perfect sense for the ECB to cut rates last week. Indeed, the bank might have acted earlier, had it not been for the public pressure exerted on it from January to March by the then German finance minister, Oskar Lafontaine. Yet the ECB itself contends that rate cuts will not stimulate the euro-zone as much as they do in the US, because labour and products markets are too heavily regulated in most European economies.

Hence the need for euro-zone governments to liberalise and reform their economies. If there is one thing all ECB board members agree on, it is this.

Economic indicators for euro-11 countries

	Feb 1999	Jan 99	Dec 1998	Nov 98	Oct 98	Sep 98	1998	1997
Inflation (annual % change)	0.8	0.8	0.8	0.8	0.9	1.0	1.1	1.6†
Unemployment (%)	10.5	10.6	10.7	10.8	10.8	10.9	10.9	11.6
Trade (Ecu bn)								
Exports	n.a.	n.a.	64.5	66.1	68.4	65.6	790.8	762.4
Imports	n.a.	n.a.	57.4	58.9	61.8	61.4	707.7	674.0
Trade balance	n.a.	n.a.	7.2	7.2	6.7	4.1	83.2	88.4

Current account (Ecu bn)	Q3 1998	Q2 98	Q1 98	Q4 97	Q3 97
Current account balance	21.8	25.0	12.4	28.6	28.0
As % of GDP	1.5	1.7	0.9	2.0	1.9

Industrial production (%) (3 mo over previous 3 mo)	Oct-Dec/Jul-Sep	Sep-Nov/Jun-Aug	Aug-Oct/May-Jul	Jul-Sep/Apr-Jun	1998	1997
	-0.3	0.0	0.1	0.2	4.2	4.1

GDP growth (%) Over same quarter last year	Q4 1998	Q3 1998	Q2 98	Q1 98	1998	1997
	2.4	2.9	3.0	3.8	3.0	2.5

Money supply M3 Annual growth rate (%)	Feb 1999	Jan 1999	Dec 1998	Nov 1998	Oct 98	Sep 98
	5.2	5.6	4.5	4.8	4.8	4.4

* provisional — estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly ones †† annual % change
Source: Eurostat

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Tax cuts seen as last straw

The resignation of Sweden's finance minister yesterday reflects a deep rift with the premier, write Tim Burt and Nicholas George

A political fault line was exposed in Scandinavia's largest economy yesterday when Erik Asbrink walked out as the finance minister of Sweden.

The 52-year-old economist resigned after complaining bitterly that he and his policies had been increasingly overshadowed by unscripted comments and policy statements from Göran Persson, the prime minister.

When Mr Persson suggested that the outlook for the Swedish economy was so strong that tax cuts could be brought forward, it proved the last straw for his disgruntled finance minister.

"It is a deep rift that has been brewing for some time," says Klas Eklund, chief economist at SEB. "It is obvious that Mr Persson has been calling the shots and Erik did not like it."

Mr Asbrink's departure has focused attention on Mr Persson's leadership style, described by many Swedish commentators as bullying and authoritarian. Given that Mr Asbrink is the third senior minister to leave the government since last September's general election, it has also raised questions over his support within the Social Democrat leadership.

Yesterday, however, Mr Persson showed no signs of regret and even referred to "business as usual" at a press briefing. But then, the prime minister was referring to management of the economy rather than the attrition rate among cabinet colleagues.

His assurances that the government would pursue prudent economic policies helped reassure the markets, and reminded analysts that it was Mr Persson rather than Mr Asbrink who, as finance minister, helped restore Swedish public finances.

In the mid 1990s, Mr Persson imposed a tight spending squeeze and raised taxes to reverse a double digit deficit in public finances. This year, that policy is expected to pay off with a surplus of about 1 per cent, possibly rising to more than 3 per cent in 2001.

The prime minister argued that the surplus could create scope for tax cuts sooner rather than later. But Mr Asbrink, the son of a former central bank governor, wanted to use the surplus first to reduce to the central government debt.

The finance minister was also credited with reforming the budget process which gives the government much stronger control of expenditure by having the budget bill voted on as a single measure and by setting clear spending limits over a three-year period.

Mr Asbrink's weakness has been in finding a clear role for himself when the policies of austerity have been so closely connected with Mr Persson.

The two say that this has not been a problem, but this has not been the case on the issue of defence cuts and now on the timing of reductions in taxes.

Although little is known of the fiscal policies of Bosse Ringholm, the new finance minister, several analysts already see his lack of experience and reliance on Mr Persson as increasing the chances of earlier tax cuts.

However, Mr Persson's government is unlikely to emerge unscathed. Even if he manages to convince his own party of the need for tax cuts he has to stitch together a parliamentary majority to do so.

This is not an easy prospect with his present allies – the Left and Green parties – still smarting from recent spending cuts.

Erik Asbrink resigned yesterday, accusing the prime minister of undermining his position Reuters

French executive in court over working hours

By Robert Graham in Paris

A senior executive in a leading French company yesterday appeared before a Versailles court accused of permitting staff to work overtime without proper pay.

The controversial case is the first of its kind in France and highlights the issue of how companies comply with the country's complex labour laws when staff voluntarily work long hours to do their jobs properly.

The prosecution has been brought by labour inspectors against Bernard Rocquemont, for allegedly allowing "clandestine work" to be carried out in 1996-97 while he was chief executive at the radar subsidiary of Thomson-CSF, the defence electronics group. Mr Rocquemont risks a FFr200,000 (€30,490, $32,900) fine and a suspended prison sentence if found guilty.

The high-profile nature of Thomson-CSF, which at the time of the alleged offences was state-controlled, has given added resonance to the case.

It is also being held against the backdrop of preparations for a second and more detailed law on the introduction of the Lionel Jospin government's flagship proposal – the reduction of the working week from 39 to 35 hours. One of the thorniest aspects in the second law is precisely how qualified staff are to be treated.

When he appeared in court yesterday, Mr Rocquemont denied every one of the charges alleging he had permitted 6,000 breaches of the law governing working hours at Thomson's plant outside Paris at Elancourt. He maintained working hours had been cleared in advance with the unions.

Mr Rocquemont, who now has another senior post within Thomson, received support from the company's senior staff and managers. In an unprecedented move the latter paid for a full-page advertisement in yesterday's Le Monde with headlines asking "Are we really clandestine workers?".

The company declined to comment, pointing out the trial was in progress and judgment was unlikely for some three weeks.

Thomson was one of several large French groups visited by labour inspectors checking overtime in 1996-97 – a process begun before the Jospin government took office in June 1997 and pledged to introduce a 35-hour week.

The Thomson inspection was sparked by a denunciation from Supper, a militant trade union. The inspections led to a new agreement with the unions at the end of 1997 that allowed qualified staff to take an extra five days holiday and be paid a bonus in lieu of overtime.

NEWS DIGEST

EUROSTAT TRIMS EARLIER ESTIMATES

EU and euro-zone growth lower than expected

Eurostat, the European Union's statistical office, yesterday clipped 0.1 percentage points off its earlier estimates for growth in the 15-nation EU and the single currency euro-zone in the final quarter of last year and the whole of 1998, compared with 1997.

The office reported that the gross domestic product of the EU 15 and 11-nation euro-zone grew by 2.2 and 2.3 per cent respectively in the fourth 1998 quarter compared with the same 1997 period, down from the 2.3 and 2.4 per cent year-on-year growth rates reported in March.

Growth for the EU 15 in 1998 as a whole was revised down from 2.9 to 2.8 per cent, while last year's euro-zone growth was trimmed from 3 to 2.9 per cent.
Peter Norman, Brussels

OIL PRICE RISE BLAMED

French consumer prices up

French consumer prices edged up 0.4 per cent in March against the previous month. The main explanation for the rise was the rise in oil prices, said Insee, the official French statistics institute. Oil prices rose 1 per cent month-on-month while overall energy prices were also up 0.6 per cent. Insee noted fresh food prices were up 1.4 per cent on February. The provisional March figures also showed headline inflation at 0.4 per cent. **Robert Graham, Paris**

IMPEACHMENT PROCEEDINGS

Duma delays debate on Yeltsin

The Duma, the lower house of Russia's parliament, has postponed a debate about whether to launch impeachment proceedings against President Boris Yeltsin until the middle of May, prolonging the political uncertainties in Moscow. Mr Yeltsin, who is confident of defeating his parliamentary opponents, had urged the Duma to resolve the issue on Thursday.

The president's Communist opponents have accused Mr Yeltsin of destroying the Soviet Union, waging an illegal war in Chechnya and conducting genocide against the Russian people. Constitutional obstacles make it unlikely that Mr Yeltsin could ever be successfully impeached. But a parliamentary vote to launch impeachment proceedings would undermine his political authority.
John Thornhill, Moscow

Switzerland could be dogged by further Holocaust wrangle

IG Farben's proposal to set up a compensation fund has stirred up matters supposedly settled years ago, writes William Hall

Switzerland and its bankers are starting to relax. The heavy international criticism about the neutral country's controversial role in the second world war has abated as the searchlight has been trained on other countries, particularly Switzerland's bigger neighbour to the north, Germany.

Last week the Swiss government disbanded its special taskforce set up to counter the international allegations about its dubious war-time role in helping Nazi Germany. Thomas Borer, its leader, is off to be Switzerland's new ambassador in Berlin. The massive search of Swiss bank accounts, overseen by Paul Volcker, the former US Federal Reserve chairman, was completed last week. All that needs to be done now is sort out the competing claims.

But there is one piece of unfinished business that could still come back to haunt Switzerland and UBS, its biggest bank. Last month the shareholders of IG Farben, which made the poison Zyklon-B gas used in the Holocaust death camps, voted to explore the possibility of setting up a compensation fund for people who had to carry out forced labour during the war.

IG Farben, which has very little money left, is looking to UBS – which more than 30 years ago bought its prize asset, its former Swiss holding company Interhandel – to provide the vast bulk of its compensation of DM3bn-DM4bn (€1.5bn-€2bn, $1.7bn-$2.2bn).

IG Farben has been in liquidation for more than 40 years. It used to be the world's biggest chemical company and was Germany's most important industrial asset during the war. It produced synthetic substitutes for vital raw materials, such as oil and rubber, and owned the Auschwitz concentration camp. It was broken up by the Allies and its assets were used to set up Hoechst, Bayer and BASF, Germany's three biggest chemical companies.

It is now a quoted shell company, with less than DM30m of assets, and controlled by Günter Minninger, a little known German property developer. Endless litigation about its property holdings delayed its liquidation.

UBS's company history glosses over the reasons for its 1966 acquisition of Interhandel, which had been set up in 1929 in Basle to help cloak IG Farben's overseas operations. However, the acquisition transformed UBS's equity base and allowed it to overtake Crédit Suisse and Swiss Bank Corporation to become Switzerland's flagship bank.

The secrecy surrounding the deal has added to the popular perception that Switzerland and its bankers used their bank secrecy laws primarily for their own benefit. But it also raises queries about the questionable role played by the administration of the late US President John F Kennedy in the early 1960s.

Three years after the end of the war, Interhandel sued the US for the return of its 93 per cent stake in General Aniline & Film Corporation (GAF), a former US subsidiary of IG Farben. The Swiss claimed Interhandel had cut its ties with IG Farben in June 1940 and was a Swiss company. The US countered that Interhandel and Hans Sturzenegger & Cie, a Basle private bank, had been used to cloak the ownership of IG Farben properties in the US and elsewhere.

> **The case rumbled on for years partly because Swiss bank secrecy laws were used to block the US request for files**

The case rumbled on for years partly because Swiss bank secrecy laws were used to block the US request for files. The Swiss government's own internal report, by Albert Rees, remains a state secret.

However, in the 1960s UBS, which had bought up Interhandel shares on the stock exchange, hired Prince Radizwell, President Kennedy's brother-in-law, as a Washington lobbyist, and the Swiss government added its support.

In 1963 Robert Kennedy, the US attorney general and the president's brother, agreed to an out-of-court settlement. Interhandel's owners received $122m, compared with the $14m they had offered to settle in 1950, and the US government won $318m. President Kennedy described the deal as an "equitable agreement" because the case could have gone on for another 10 years and the only people benefiting were "the lawyers".

However, the US settlement did not end the legal wrangling about Interhandel's foreign assets. IG Farben shareholders then sued UBS for the recovery of their foreign assets and it was not until 1988 that the case was finally dismissed by Germany's federal supreme court.

But UBS's hopes that it had finally laid the Interhandel case to rest have been upset by the arrival of new liquidators at IG Farben and also by the fact that the Swiss government's own historical commission is digging away at Interhandel's secrets. Its research is expected to be released later this year.

IG Farben, unlike its former affiliates, Hoechst, Bayer and BASF, is not involved in the German government's recently proposed fund which is expected to pay out more than $2bn to former forced labourers.

IG Farben paid DM27m to the Jewish Claims Conference in 1957 but has never paid any individual compensation to the 35,000 who worked at its Auschwitz camp.

IG Farben wants to have its compensation fund set up within six months.

"We will possibly soon be able to prove that the unusually large foreign assets of IG Farben went to Interhandel illegally and in an immoral way," says Otto Bernhardt, a CDU politician and one of the two new IG Farben liquidators.

If IG Farben can prove that, the "money must be made available to the people who were injured through IG Farben during the Nazi era". Two-thirds will go into a foundation to "compensate victims of IG Farben and examine the past". The remaining third will go to shareholders.

Christoph Meier, UBS's spokesman, says there is "absolutely no basis" to IG Farben's claims. The US and Swiss governments and the German courts have all agreed that Interhandel was a Swiss company and free from further claims. In addition, last year's $1.25bn US class action settlement by the two big Swiss banks released them from all future claims from Holocaust-era victims. It is understood that the Interhandel case is mentioned in the settlement.

UBS is convinced it has a water-tight defence and sees no merit in discussing the matter.

However, others believe that when UBS took over Interhandel more than 30 years ago it swallowed a poison pill whose unpredictable side-effects take a long time to show.

BANANA DISPUTE WTO AUTHORISES £200m RETALIATION ☐ BRUSSELS CONSIDERS APPEAL

US wins permission for sanctions on EU

By Frances Williams in Geneva

The World Trade Organisation will meet next Monday to give Washington approval to impose sanctions of nearly $200m on European goods in the long-running US-EU banana dispute.

This will be the first time authorisation to retaliate against a member country has been granted by the WTO or its predecessor, Gatt, in more than 50 years of existence.

The 100 per cent duties will affect $191.4m of imports of European Union bed linen, batteries, luxury handbags, paper and non-corrugated boxes, lithographs, and coffee and tea makers.

WTO arbitrators last week put the value of lost US trade from the EU's current banana regime at just over a third of Washington's $520m claim, obliging the US to pare its original list of targeted products which included Scottish cashmere sweaters, and prosciutto and pecorino cheese from Italy.

Under WTO rules authorisation to retaliate must be granted if a country fails to comply with WTO judgments within a specified period.

The same three-man panel which carried out the arbitration said the changes to the EU's banana import regime introduced by Brussels on January 1 had failed to bring the system into conformity with WTO non-discrimination precepts.

The EU is still considering whether to appeal against this verdict, which could in theory change the arbitrators' assessment of US trade losses.

Brussels also intends to challenge the US intention to backdate the sanctions to March 3.

Provisional US measures against $520m of EU imports taken on that date, anticipating the arbitrators' award, are already the subject of a WTO complaint by the EU as unauthorised unilateral action. EU officials said yesterday this complaint would stand regardless of next Monday's sanctions authorisation.

The WTO yesterday published the arbitration report alongside two reports by the panel on the legality of the EU's banana regime requested separately by Ecuador and the EU.

The panel – which in 1997 ruled in favour of the original complaint by the US, Ecuador, Mexico, Guatemala, Honduras and Panama – upheld almost all Ecuador's charges of discrimination against the amended EU banana arrangements.

It confirmed that the EU can give preferential duty-free treatment to bananas from African, Caribbean and Pacific members of the Lomé convention for which it has a WTO waiver.

But it said the quota and licensing systems designed to favour ACP bananas still discriminate illegally against Latin American suppliers and US-based marketing companies.

At Ecuador's request, the panel also made four suggestions for how the EU could change its import arrangements to conform with WTO rules:

- A tariff-only system, including duty-free ACP imports covered by a WTO waiver
- A tariff-only system coupled with a quota for ACP bananas covered by a WTO waiver
- A global quota regime without country allocations, combined with duty-free access for ACP bananas
- A quota regime with country shares negotiated with suppliers.

Turkish pipeline deal misses poll deadline

By Leyla Boulton in Ankara

Turkey yesterday conceded that it was unlikely to seal a multi-billion dollar pipeline agreement before elections on Sunday.

Ziya Aktas, the energy minister, had hoped to finalise the project by tomorrow in order to save six months which he said would otherwise be lost while the talks were picked up by a new government.

Agreement would also have further boosted the electoral chances of Bulent Ecevit, the caretaker prime minister whose Democratic Left party has already been buoyed by the capture of Abdullah Ocalan, leader of the banned Kurdish PKK guerilla group.

But yesterday Mr Aktas said that agreement on key commercial terms for a pipeline to transport Caspian oil from the Azerbaijan capital of Baku to Turkey's Mediterranean port of Ceyhan was now unlikely this week. He said the Turkish government was unable to put together its response to a package submitted by the oil companies on Friday, following a week-long public holiday in Turkey. This included proposals that Turkey should guarantee any cost overruns on its $2.4bn estimate for the project, oil executives said

The BP Amoco-led Azerbaijan International Operating Company also doubts a deal can be finalised this week on the grounds the Turkish side is unlikely to review its set of proposals in time. The US, which is attending a closed seminar in Istanbul today with oil executives as well as Turkish and Azerbaijan officials, had put intense pressure on the AIOC to come to a quick agreement with Turkey, its close ally.

The project, which Ankara views as being in its national interest, is also the centrepiece of Washington's efforts to isolate Iran and strengthen the independence of the former Soviet republics in the Caspian sea region. But the oil companies have demanded incentives and guarantees on cost overruns to make the project commercially attractive in the face of low oil prices and uncertainty over the eventual oil reserves in the Caspian.

Italian exporters reap benefit of strong US economy

Peter Marsh reports on a promising outlook for Europe's second biggest machine tool industry

On the outskirts of Bergamo in northern Italy, a team of workers is building by hand one of the world's most sophisticated factory machines. It is a giant multi-spindle lathe, for use in turning out complex automotive parts at high speed, and is being assembled in a plant run by Gildemeister Italiana, a large Italian machine tool company.

Ettore Batisti: sales rising with strong German and US demand

With just over half the L210bn ($117m) output of his company last year exported, Ettore Batisti, Gildemeister Italiana's managing director, is unshaken by the economic turmoil affecting south-east Asia and south America, which together account for only about 1 per cent of the company's sales.

"We are looking to expand sales this year to about L250bn, as a result of good demand for our products in countries such as Germany and the US," says Mr Batisti, whose company is 51 per cent owned by a private financial consortium and the rest quoted on the Milan stock exchange. It has no link with Gildemeister, the publicly-quoted German machine tool company from which it was spun off in 1996.

The Italian machine tool industry – the second biggest in Europe after Germany and the fourth biggest in the world – adds up to one of the continent's most export-oriented industrial sectors. But in the past year it has been forced to sharpen its efforts to look for promising markets, following the economic crises in parts of the industrialising world.

Italian machine tool production last year reached L6,845bn, 60 per cent of which was exported. The tools are used for cutting and shaping metal in a wide variety of manufacturing. According to UCIMU, the Italian machine tool trade association, output and exports from the industry are both likely to rise about 6 per cent this year in value, following increases of 9.5 per cent and 8 per cent respectively during 1998.

Automotive and aerospace businesses are the biggest users of machine tools

Behind this promising outlook is the industry's reliance on customers on the automotive and aerospace businesses, which are the biggest users of machine tools. Both sectors – particularly in the US and Europe – have been increasing their factory investments in recent years, as part of their efforts to increase competitiveness through more sophisticated machines.

Another plus for Italy's machine tool industry is the specialised nature of much of its output. For instance, Giuliani, based near Bologna, is one of a handful of companies worldwide which make automated systems for producing doorlocks.

The company has sales of L35bn a year, 80 per cent of which are exported. With lockmaking an activity left mainly to hundreds of small companies operating in small geographical markets, Giuliani is generally cushioned from weaknesses in specific export markets by brighter prospects in others.

But in the past two years, North America has been a particularly promising location for the country's machine tool exporters – reflecting the strength of the US economy and the increasing trade surplus with the US by the European Union as a whole.

In the case of Gildemeister Italiana, the US last year accounted for 8 per cent of the company's sales, making the country its third most important market – after Italy and Germany. Within five years the company wants to increase its proportion of sales from the US to reach 20 per cent.

Warcom, a maker of metal bending machines, has found its strategy for increasing sales to North America pay off. Vittorio Corsini, Warcom's sales manager, says that early in the 1990s it was highly successful in exporting to south-east Asia. "But now our sales there have virtually halted due to the region's economic problems," he says. As a result, the company has switched its marketing efforts to the US and Canada where sales climbed from almost zero in the mid 1990s to account last year for 10 per cent of Warcom's L17.5bn sales.

IEMCA, the world's biggest maker of machines to feed metal into turning systems (lathes), pushed up sales from L77bn in 1997 to L100bn last year, assisted by strong demand from outside Italy. This accounts for only 30 per cent of its sales, with the US being IEMCA's second biggest market, accounting for a quarter of last year's revenues. So successful has the company been in the US that the company is planning an assembly operation in the US for its machines, probably starting next year.

"I am expecting the outlook to remain fairly good both in the US and parts of Europe such as France," says Gianni Braghini, IEMCA's sales manager.

Italian machine tool industry
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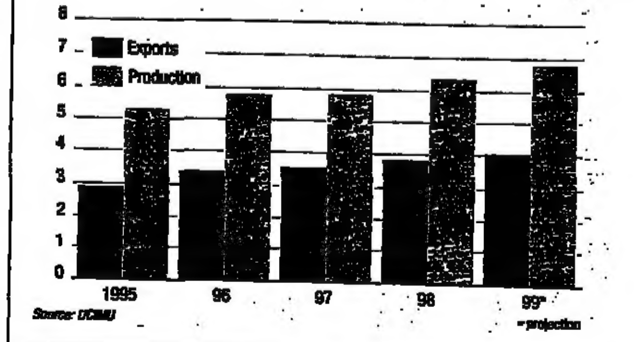

Source: UCIMU
* projection

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for April 15 1999 to May 14 1999 (March 15 1998 to April 14 1999 in brackets).

Australian dollar	6.16	(6.27)	Swiss franc	3.75	(3.76)
Danish krone	4.66	(4.84)	US dollar for credits		
Canadian dollar			up to 5 years	6.11	(5.90)
up to 5 years	6.20	(6.07)	5 to 8.5 years	6.14	(5.91)
5 to 8.5 years	6.17	(6.05)	more than 8.5 yrs	6.36	(6.10)
more than 8.5 yrs	6.24	(6.13)	Euro		
Korean won	9.25	(9.59)	up to 5 years	4.15	(4.14)
Yen	2.40*	(2.70)**	5 to 8.5 years	4.50	(4.41)
Swedish krone	4.80	(4.67)	more than 8.5 yrs	4.80	(4.67)
Sterling	5.75	(5.53)			

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.
** The Japanese Yen CIRR will change to 2.10 as of 19th April 1999.*
***The Japanese Yen CIRR changed to 2.40 on 20th March 1999.*

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Line between war and peace tends to blur in Afghanistan

Commander Mohammed Khan (arms outstretched) talks with one of his officers at Bangi

Apart from several terrible exceptions, ground seems to change hands with little bloodshed, as commanders cut deals with each other or simply change sides in a strife-torn land, writes Charles Clover

Standing in front of his trench and peering through binoculars into the valley below, Wali Mohammed Khan, commander of the front line at Bangi, Afghanistan, looked tense.

Minutes ago, his enemies, the Taliban, entrenched 2km away on the valley floor, had fired two artillery shells on to the road that winds through noman's land.

The shells had landed just 300 metres away from his position, and nearly hit one of his foot patrols.

In response, he had ordered an answering rocket barrage which landed with a loud explosion that reverberated down the valley. The ducks in the rice paddies below rose panic-stricken into the air.

It was a typical scene from the longestrunning conflict in the world – Afghanistan's 19year civil war.

At present, the war pits the Islamic fundamentalist Taliban, who hold 90 per cent of Afghanistan, against forces loyal to Ahmad Shah Masood, a legendary Tajik guerrilla commander who still holds a few provinces in the north.

But all was not as it seemed that day at Bangi, amid the frantic radio chatter, shrieking artillery and anxious ducks.

A few minutes after his rocket attack, Mohammed Khan picked up his walkie talkie, changed the frequency to one which the Taliban use, and addressed his foes.

"Hey Turban!" he shouted, referring to the favourite headgear of the Islamic fundamentalist Taliban. In response, his handset crackled: "Hey Kular! Kular!"

A kular is a woollen hat traditionally worn in Afghanistan by people who cannot afford turbans. It is also the trademark of Mr Masood's army . Sure enough, the commander was wearing a kular.

He grinned. "Hey, Chaplee [cheap sandals]!" he fired back.

Turban evidently wore his cause on his sleeve, and started chanting a well known passage from the Koran which warbled out of the radio like a broken record player.

Mohammed Khan and his men giggled, as everyone switched their frequencies in order to listen.

"There is no God but God!" Turban polished off the verse. "Hey Kular! Do you have enough weapons up there?" he inquired.

"Yes. God be praised," answered Mohammed Khan. "What about you? Do you have enough weapons?"

"We do. Thanks be to God!" the voice of Turban crackled.

They chatted away for a few more minutes like old friends, and, with a parting "Peace be with you!" Mohammed Khan put down his handset.

An hour later, they were firing shells at each other again.

'Hey, do you have enough weapons up there?' asked one fighter. 'Yes, God be praised,' answered his enemy. 'What about you?' 'We do, thanks be to God!'

This all made perfect sense in Afghanistan where, after 19 years of strife, the line between war and peace has become somewhat blurred.

Twenty km behind the front lines, in Mr Masood's capital city of Taloqan, the bazaar is thriving with goods brought in by traders through Kunduz Province, which lies across the front lines at Bangi, and is firmly under Taliban control.

Mohammed Khan knows many of the Taliban commanders personally from when they were Mujahideen together fighting the Soviet Union in the 1980s.

With a few terrible exceptions, such as the massacre last August of thousands of civilians in the city of MazariSharif, ground tends to change hands with suspiciously little bloodshed.

Back in Taloqan, Mohammed Nabi Tufan, one of Mr Masood's top generals, explained this phenomenon over a glass of tea: "Commanders, rather than fighting, often prefer to cut deals with each other, and simply change sides. They have been fighting each other for so long that they already know in advance who will win".

General Tufan, for instance, speaks fluent Russian from a year in Moscow's military academy in 1991. That was back in the old days when he was commanding an armoured regiment fighting against Mr Masood.

But this casual approach to war has led to an equally distorted approach to peace.

For example, in March, the two sides agreed to form a shared government at a meeting in Ashgabat, Turkmenistan.

Without any irony at all, a week later, they both launched their spring military offensives.

Mr Masood, in an interview with the FT, did not see any contradiction in simultaneously insisting that the peace process was alive and well, while vowing to blast the Taliban out of several northern provinces.

"There hasn't been any serious fighting yet this year, and I can confidently say that the peace process continues," he said.

"I believe that the only way to end the war is to find a negotiated solution.

"But until there is peace and a just distribution of power, we will continue to press our objectives and rid Afghanistan of the Taliban."

Meanwhile, the war rumbles on in its own quirky way.

Perhaps the best example of this is back at Bangi, where Mohammed Khan and his men were standing in front of their trenches, well within range of Taliban guns.

This is not necessarily due to their stouthearted bravery, but rather, because it had just rained and the trenches were a mess. Nobody wanted to get in them.

Are they afraid of being shelled?

Nasridin, one of the soldiers, seems a little too confident that "it is not time yet". It is not entirely clear what he means.

Bias claims as Algeria poll draws nearer

By Roula Khalaf in London

The campaign for Algeria's presidential election drew to a close yesterday, amid allegations of administrative bias towards Abdelaziz Bouteflika, the former foreign minister.

In hundreds of rallies, the seven candidates contesting Thursday's election had the chance to promote a message largely focusing on national reconciliation and the need to restore the rule of law to end more than seven years' violence.

But four independent candidates – Mouloud Hamrouche, Ahmed Taleb Ibrahimi, Hocine Ait Ahmed and Abdallah Djaballah – claimed that the administration, public enterprises and state media were put to the service of Mr Bouteflika and the parties supporting him, while other candidates enjoyed only partial coverage on television.

The four candidates were meeting yesterday to discuss problems encountered during the campaign and to coordinate a reaction.

The commission set up to monitor the elections insisted that while isolated cases of bias may have occurred, the campaign had gone smoothly. It said that Mr Bouteflika had lodged his own complaints about bias towards other candidates.

But the campaign offices of independent candidates alleged that the two minutes allowed to each contender on state-owned television every day had been followed by footage of meetings by leaders of parties or organisations backing Mr Bouteflika, increasing coverage of his campaign.

They claimed that some students and state workers had been given time off for Mr Bouteflika's rallies, with people even being transported there in state buses.

Mr Bouteflika has an advantage over other candidates since he is backed by the pro-government leaderships of four parties. But grass roots party members were mostly not consulted on the backing given to him and are likely to spread their votes among different candidates.

Liamine Zeroual, the outgoing president, has pledged the election will be fair. Contenders will be given copies of results emerging from each polling bureau to compare with the final tally.

Their observers will be able to follow mobile polling stations and monitor the vote of security forces.

Israel takes a softer line towards Russia

By Judy Dempsey in Jerusalem

Ariel Sharon, Israel's foreign minister, yesterday visited Moscow for the third time this year, reflecting a significant change in Israel's attitude to the former superpower.

Israeli government officials said their change of tack meant they would no longer lobby the US Congress to press for sanctions on Russia in order to curb the transfer of sensitive technology for Iran's nuclear missile programme.

Instead, it would like the World Bank and International Monetary Fund to provide substantial financial assistance to Russia in the belief that the economic need to sell equipment to Iran would diminish. Such assistance would also strengthen Mr Primakov's government and could boost his presidential election chances – if he decides to run.

Such an approach represents a completely new shift by Benjamin Netanyahu's government. It has spent the past two years lobbying Congress at any opportunity to put pressure on President Boris Yeltsin and Mr Primakov to stop technology transfers to Iran, as well as openly accusing Moscow of doing little to stop those transfers.

Driving the policy is a combination of domestic and political factors which officials said has not been co-ordinated with Israel's foreign ministry and which has taken Washington by surprise.

With five weeks to go to Israel's premiership and parliamentary elections, Mr Netanyahu wants to capture as much of the Russian vote as possible in his bid for reelection. Improved economic and political relations with Moscow, the government believes, would boost support from Israel's 1m strong Russian community. Although they tend to vote for right wing parties, the Netanyahu government is not prepared to take any chances in what is expected to be a close-run contest for the premiership.

This domestic consideration partly explains Israel's *volte-face* on sanctions. While there is, for the moment, a consensus among some of Mr Netanyahu's advisers that threats of sanctions have had little effect, they admit such threats only undermine Israel's attempts to improve relations with Russia.

Not all politicians are convinced by such a policy. Shimon Peres, former Labour prime minister, has argued that official and unofficial transfers will continue whatever financial assistance is extended to Moscow.

هكذا من الاصل

JAPANESE ECONOMY KEIDANREN CHIEF WARNS OF SLOW RECOVERY □ EXISTING STIMULUS MEASURES LIKELY TO RUN OUT OF STEAM

Business group sees need for new boost

By Michiyo Nakamoto in Tokyo

Japan's most influential business federation indicated yesterday that it expected the Japanese government to have to implement another supplementary budget later this year, when the impact of current stimulus measures is expected to wear off.

"If the economy dips in the second half, some funds will have to be provided," said Tadashi Imai, chairman of the Keidanren. He also warned that he did not expect the economy to return to health quickly. "I am not optimistic. I don't think the Japanese economy will achieve a self-sustaining recovery given the current situation, as private-sector capital spending remains sluggish," he said.

His comments add to a rising chorus of concern that the government's massive and unprecedented injections of public money will not be sufficient to return the Japanese economy to self-sustaining growth.

Last week Naoto Kan, leader of the largest opposition party, also indicated he expected the government of Keizo Obuchi, the prime minister, to have to implement another supplementary budget. Many private economists have indicated that they expect further fiscal stimulus measures and that the question is not whether the government will be forced to implement another supplementary budget but how large the stimulus will have to be.

"Sentiment may have improved but the economic reality has not," said Shigenori Okazaki, political analyst at Warburg Dillon Read in Tokyo.

Although government officials and leaders of the ruling Liberal Democratic party vehemently deny the possibility of another supplementary budget, the prime minister, who faces an election for the LDP presidency in September, is likely to do everything he can to deliver stronger signs of growth by then. Having promised 0.5 per cent growth this year, Mr Obuchi has staked his political life on a recovery.

Mr Imai's pessimism reflects the problems still facing corporate Japan, particularly the need to reduce excess capacity and restructure. Progress in reducing capacity has been slow in large part because of the huge debt companies have taken on to build that capacity.

Selling or scrapping the excess manufacturing capacity concerned would leave many companies with just their huge debts.

The government has proposed debt-equity swaps to ease the burden on companies that face restructuring.

However, the proposal has met with considerable septicism, partly because of fierce opposition by the banks.

Although the Keidanren has supported the idea, Mr Imai yesterday acknowledged that debt-equity swaps were one possible solution but not a panacea.

Banks able to collect just 22.5% of bad loans

By Naoko Nakamae in Tokyo

The sharp decline in Japanese real estate prices has inflicted another blow to the country's fragile banking sector, it has emerged.

In the first half of fiscal 1998, Japan's 10 leading banks recovered only 22.5 per cent of their bad loans, down steeply from the previous year, according to a private research company.

The trend is particularly unwelcome since many banks are in the process of disposing of their bad loans as part of restructuring in return for a Y7,450bn ($62bn) injection of public funds into their capital bases. Japan's nine largest banks sold some Y3,000bn of bad loans last year.

But accelerating deflation has meant that banks are having to take bigger losses on their bad loan sales. This has led some banks to fear that they may have to make further loan-loss provisions if property prices continue to fall.

The market could face further oversupply from other sectors as well, as they redouble their restructuring efforts amid Japan's worst recession in the post-war era. Last year, commercial property prices fell for the eighth straight year, and prices in Tokyo are now 75 per cent below their 1991 peak.

Sanyu System Research Institute, whose research was based on the Tokyo District Court's auctions of property collateral, said that Fuji Bank's recovery rate of 12.8 per cent was the lowest of the ten banks, while Bank of Tokyo-Mitsubishi's rate of 46.6 per cent was the highest.

Fuji Bank yesterday said that its recovery rate was low because it had already disposed of its superior collateral, and had been selling less attractive collateral in 1995.

But Sanyu's figures also showed that while banks were putting up more property for auction, the success rate had fallen from 50.7 per cent in the first half 1997 to 37.8 per cent in 1996. The data also showed that banks were finding it harder to auction their property collateral compared with other sectors.

Setback for Beijing as exports fall

By James Harding in Shanghai

China yesterday reported a sharp fall in exports and unrelenting deflation in the first quarter of this year, evidence of the strains on the Chinese economy despite Beijing's forecast of a robust performance in 1999.

Exports, which have driven Chinese economic growth through much of the 1990s and not witnessed a decline in annual growth for nearly 15 years, fell by 7.9 per cent year-on-year in the first three months of 1999 to $37.27bn.

The retail prices index, which has been negative each month since October 1997, fell 3.2 per cent in March compared with a year earlier, suggesting that in spite of the government's efforts, prices deflation was still gathering momentum.

Zhu Rongji, China's prime minister, has offered American audiences in his tour of the US this week an upbeat outlook on the Chinese economy, forecasting that 1999 growth will outstrip last year's 7.8 per cent figure and this year's 7 per cent target.

Officials yesterday suggested the strains on China's external trade as well as the persistent drag on prices would add to the pressures on the state infrastructure spending programme and the easing of consumer credit, the policies which Beijing is relying on to revive demand and reflate the economy.

The decline in exports, which registered 0.5 per cent growth last year after an impressive 20.9 per cent rise in 1997, is bound to prompt some people once again to question Beijing's long-standing commitment not to devalue the Chinese currency.

Mr Zhu repeated on arrival in the US the pledge he has made now countless times to maintain the stability of the currency.

However, one Chinese official was quoted last week saying the no-devaluation pledge is not permanent and other economic policymakers in Beijing have been considering the conditions under which China might have to make an exchange rate adjustment.

Export competitiveness and the balance of payments, as well as broader issues such as economic growth and social stability, are likely to weigh on official thinking.

China's first-quarter trade surplus slid by 39.8 per cent to $4.23bn compared with the same period last year, as imports surged 11.6 per cent to $32.9bn, the customs figures showed.

Beijing officials may draw a little comfort from the export figures month by month, which show exports down 3.6 per cent year-on-year in March, after a 10.8 per cent fall in January and a 10.2 per cent decline in February.

The strength of the Chinese currency has dented the competitiveness of many exporters, as rival manufacturers elsewhere in Asia have been boosted by currency depreciations in their countries. But, the collapse of Asian markets has also had a detrimental impact on China's overseas sales.

Philippine Moslem rebels stick to goal of their own state

Tony Tassell finds that both sides in the conflict in Mindanao follow a policy of restraint

Not much follows the script of the traditional guerrilla war in the southern Philippine island of Mindanao where Moslem rebels have been fighting for more than three decades for an independent Islamic state.

A Coca-Cola sign hangs at the entrance to the main headquarters of the rebel Moro Islamic Liberation Front (MILF) in the rugged hills of south-west Mindanao, an unlikely symbol of normality at the settlement.

Apart from the tense presence of rebel soldiers clutching M16 rifles, there seems little to separate Camp Abukare from the villages in government-controlled territory.

It is a reflection of the orderly structure of a protracted conflict which has often seemed more like a volatile stalemate with occasional flurries of fighting than an unresolved war. "We are not at peace, we are not at war," admits Al-Haj Murad, chief of staff of the MILF, in an interview at the camp.

Both sides of the conflict appear to be following a policy of restraint in an attempt to win the wider battle on the public relations front. As one senior defence department official admitted privately: "It is more a war of propaganda than anything."

Since the mid-to-late 1980s, there has been an informal ceasefire between the government and rebel forces with sporadic fighting. In January more than 30 people

The rebel group itself claims it can muster 50,000 fully armed soldiers within 24 hours

were killed in the latest upsurge, revealing the fact that the MILF is still heavily armed, apparently well funded and strongly manned.

The government estimates the MILF has more than 8,000 armed troops. The rebel group itself claims it can muster 50,000 fully armed soldiers within 24 hours.

Planned peace talks between Joseph Estrada, the Philippine president, and Hashim Salamat, the reclusive leader of the MILF, were called off last month as a result of disputes over the location and security.

The government is set to reopen low-level peace talks next month but the road to permanent peace faces formidable stumbling blocks, the chief one being the MILF's insistence on its demands for the establishment of an independent Islamic nation for the 5m Moslems of Mindanao.

"It is the bottomline for us," says Mr Murad, adding the MILF was not willing to compromise on this issue. "Nothing else will satisfy the aspirations of the Moro people which have been fighting for independence for more than 300 years since Spanish colonisation."

Mr Murad says the Moro – a derivation of the Spanish word Moor – people have a separate Moslem culture from the rest of the Catholic-dominated population of 70m. Only an independent state based on Islamic religious rules would preserve this culture, which pre-dates colonisation.

"It is a question of survival for us, we either fight or we lose our culture," he said.

Moro Islamic Liberation Front (MILF) military chief Al-Haj Murad

The government has steadfastly refused this option to the MILF, preferring a policy of containment towards the rebels in the hope its movement would fade over time. The option too of granting autonomy but not statehood also has been blocked by an earlier deal with a larger rival Moslem group, the Moro National Liberation Front.

As part of the deal, an autonomous region was set up in Mindanao governed by a council led by MNLF leaders and some 5,000 of its soldiers were integrated into the Philippine army. The region has had a somewhat mixed track record, however, since its establishment in 1996-97.

"The concept of autonomy has not really worked. The government needs to tackle the root cause of the problem – the aspirations of the Moro people for independence," says Mr Murad. "Even if we did accept an autonomy deal, there would only be another group spring up. So we have to fight on."

The government's policy of containment towards the MILF seems a tacit recognition that even if it military defeated the rebels, another group would emerge to take its place.

In spite of recent hawkish comments by Joseph Estrada, the Philippine president, daring the MILF not to provoke the army, his government still appears to be adopting the policy of containment backed by increasing development in the area to lessen demands for independence.

This process, however, is likely to be a long haul with the stalemate continuing.

"We could see this drift on for many more years unless the government accepts our demands," says Mr Murad.

Mahathir 'ready to take up work load'

By Sheila McNulty in Singapore

Mahathir Mohamad, Malaysia's prime minister, was released from hospital yesterday after 10 days' treatment for bronchitis.

Dr Mahathir, 73, who had a heart bypass in 1989 and was therefore admitted to the National Heart Institute as a precaution, was to go home and recuperate under doctors' supervision.

He keeps up an energetic public schedule, so his absence from the limelight fuelled concerns that he was seriously ill. He appeared, surrounded by family, on television on Thursday to end such speculation, though he looked weak.

An official with the prime minister's office said Dr Mahathir would assume his work load right away.

Abdullah Abdullah Ahmad Badawi, deputy prime minister, said that Dr Mahathir went to the hospital gymnasium yesterday and walked 1km on an exercise treadmill.

Dr Mahathir's sacking of Anwar Ibrahim, his deputy and heir-apparent, has made any signs of frailty significant, as it is uncertain who will eventually succeed him.

Mr Abdullah has since been appointed his deputy, but Dr Mahathir has not made clear whether Mr Abdullah is his chosen successor.

Banker bids to be Macao chief

By Louise Lucas in Hong Kong

Stanley Au, a 58-year-old banker who holds several public positions, yesterday launched his bid to become the first chief executive of Macao, the Portuguese enclave which will return to mainland Chinese rule on December 20.

Mr Au is the first official candidate to come forward, but his bid pits him against Edmund Ho, also a banker and the man widely tipped to win.

The outcome of the chief executive race will be unveiled on May 15. As in Hong Kong, the selection will be made by a Beijing-appointed committee: the Macao selection committee comprises 200 members who span business, labour and the community sector. Both candidates have good relations with Beijing.

Mr Au's manifesto offers a middle ground, if utopian, outline for Macao: a law before which all are equal, clean and efficient government, developing finance and high value-added industries, stamping out organised crime.

More controversially, he would seek to abolish the lucrative gambling monopoly now held by tycoon Stanley Ho – a man who has already given his backing to Edmund Ho (no relation).

Mr Au, who is chairman of the Delta Asia Financial Group which includes the bank founded by his father, also sought to stress his local credentials: "Being a son of Macao, locally bred, I was a part of Macao's past and am firmly committed to its present and its future."

The successful candidate to be chief executive will take responsibility for choosing his own five-strong team of policy secretaries, who may come from either public or private sectors.

Only one of the seven existing secretaries – the Macanese Jorge Alberto Hagedorn Rangel, secretary for public administration, education and youth – is eligible to serve again: the other Portuguese ministers will leave. This contrasts with Hong Kong, where Tung Chee-hwa, chief executive, inherited the entire civil service from the departing British governor.

BALLISTIC MISSILE IMPACT LESSENED BY WARNING TO PAKISTAN AND NUCLEAR POWERS

Test unlikely to affect sanctions

By Our Foreign Staff

US officials yesterday described India's weekend ballistic missile test as regrettable but suggested that the launch would not necessarily set back Indian efforts to get US nuclear sanctions lifted.

"It depends where they go from here," said one US official, adding that India needed to make sure the test was not followed by other actions that could encourage a regional arms race.

The US and other industrialised countries introduced sanctions against both countries after India's nuclear tests last May and Pakistan's response. Some penalties have been already eased, such as a ban on loans to India from the US Export-Import Bank.

In a dialogue being pursued with New Delhi by Strobe Talbott, deputy US secretary of state, the US has suggested that steps by India – including its signature to the Comprehensive Test Ban Treaty – could lead to a further easing of the sanctions when they come up for review mid-year.

Officials noted that the effect of the test on regional tensions should have been minimised by the advance warning given to Islamabad of the tests.

India also informed the US and the world's four other nuclear powers in advance of the tests. The unprecedented warning to Pakistan was consistent with the confidence building measures agreed by Atal Behari Vajpayee, the Indian prime minister, with Nawaz Sharif, his Pakistani counterpart, during their summit in Lahore earlier this year.

Mr Sharif was last night faced with growing domestic pressure for a titfortat response, but officials said a decision had not been reached. Share prices on the Karachi stock exchange fell almost 3 per cent yesterday, as anxious investors, fearing possible western economic sanctions on both India and Pakistan in the wake of the tests, placed sell orders.

Sartaj Aziz, the finance minister, yesterday repeated that Pakistan would give a "befitting response" to the Indian test. However, senior government officials said, Mr Sharif was likely to chair a meeting of his security officials in a day or two, to take a final decision. But senior analysts said the testing of a Pakistani missile capable of carrying a nuclear warhead was inevitable.

Military analysts in Washington said the updated Agni II missile, with a 2000km range, would have little impact on Pakistan, which India can reach with existing missiles. The testing was clearly directed to cover the vulnerability New Delhi perceives with respect to China.

China yesterday expressed regret and concern over the Indian missile test, warning that "it could trigger a new round of arms race in South Asia". The Chinese foreign ministry issued a statement saying the test on Sunday of the rocket, which is believed to be capable of carrying a nuclear warhead and reaching well into Chinese territory, violated the spirit of a UN resolution calling on India to halt development of nuclear-capable missiles.

The statement said China had noted recent efforts by India and Pakistan to strengthen dialogue and Beijing hoped the two sides could continue "meaningful dialogue with patience and sincerity".

Reports by Stephen Fidler in Washington, Amy Louise Kazmin in New Delhi, Farhan Bokhari in Islamabad and James Harding in Shanghai

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

■ UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1989	115.5	112.7	5.2	97.9	100.1
1990	116.2	112.4	5.5	82.7	93.5
1991	113.3	110.2	6.8	61.7	96.2
1992	117.0	113.6	7.4	61.8	103.5
1993	122.2	117.6	6.8	67.7	107.1
1994	129.2	123.9	6.0	79.0	113.5
1995	133.3	130.0	5.5	79.3	116.6
1996	139.3	135.8	5.4	77.0	121.6
1997	145.1	144.0	4.9	78.9	129.4
1998	154.6	149.2		80.2	129.6
1st qtr.1998	5.1	5.4	4.6	81.7	130.8
2nd qtr.1998	7.6	4.6	4.4	80.4	130.2
3rd qtr.1998	5.5	3.0	4.5	80.6	128.7
4th qtr.1998	7.8	1.9	4.4	78.1	129.6
April 1998	7.0	5.0	4.3	80.4	130.5
May	8.2	5.1	4.4	80.3	130.2
June	7.6	3.6	4.5	80.4	130.2
July	5.5	2.7	4.5	81.3	130.2
August	5.1	3.6	4.5	82.2	129.8
September	6.1	2.6	4.5	78.3	128.7
October	7.5	2.4	4.5	85.4	128.8
November	7.8	1.7	4.4	79.9	129.0
December	8.3	1.6	4.3	77.8	129.6
January 1999	8.2	1.6	4.3		132.3
February		1.9	4.4		
March					

■ JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1989	118.3	119.6	2.2	146.3	102.0
1990	128.2	124.5	2.1	149.8	99.5
1991	135.7	126.7	2.1	144.2	94.9
1992	135.0	119.0	2.1	124.2	90.8
1993	132.8	114.3	2.5	105.8	91.9
1994	134.1	115.3	2.9	102.3	96.9
1995	134.1	119.2	3.1	106.6	9912
1996	135.2	122.0	3.3	119.0	100.3
1997	135.0	126.4	3.4	123.2	97.2
1998	128.6	117.6		109.0	98.4
1st qtr.1998	–8.1	–3.9	3.7	112.7	96.1
2nd qtr.1998	–2.1	–8.5	4.1	107.2	95.9
3rd qtr.1998	–4.0	–8.6	4.2	107.0	96.2
4th qtr.1998	–4.4	–6.7	4.4	109.6	98.4
April 1998	–0.7	–6.6	4.1	108.7	95.6
May	–1.9	–11.2	4.1	102.1	95.8
June	–3.5	–7.6	4.2	110.7	95.9
July	–3.6	–9.2	4.1	106.5	96.1
August	–4.2	–9.2	4.3	109.0	96.0
September	–4.0	–7.5	4.3	105.4	96.2
October	–6.3	–7.9	4.4	106.5	96.3
November	–2.8	–5.6	4.4	111.4	97.0
December	–4.2	–6.4	4 4	110.7	98.4
January 1999	–5.3	–7.9	4.4		
February	–3.6	–5.2	4.6		
March					

■ GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1989	111.9	111.4	5.6	219.6	96.3
1990	119.7	117.2	4.8	261.8	97.5
1991	125.0	119.4	4.2	297.9	94.9
1992	122.8	117.7	7.7	287.9	88.1
1993	119.7	110.0	7.9	229.0	93.0
1994	117.6	114.6	8.4	241.2	101.9
1995	118.4	115.4	8.2	268.3	97.7
1996	117.2	114.9	8.9	274.1	101.6
1997	115.8	118.1	10.0	282.8	109.1
1998	115.7	122.7		353.8	106.4
1st qtr.1998	–0.1	6.5	11.5	319.1	110.6
2nd qtr.1998	–2.0	4.6	11.0	363.6	111.0
3rd qtr.1998	1.7	4.4	10.8	373.3	107.9
4th qtr.1998	0.1	1.2	10.7	359.1	106.4
April 1998	–1.9	4.3	11.3	351.6	110.7
May	–0.9	6.4	11.2	368.3	111.0
June	–3.2	3.1	11.0	370.8	110.9
July	2.7	3.6	10.9	369.1	110.5
August	1.8	6.2	10.9	377.5	109.4
September	0.6	3.1	10.8	373.3	107.9
October	–2.0	2.4	10.7	370.0	107.0
November	3.0	0.8	10.7	361.6	106.5
December	–0.7	0.3	10.7	345.8	106.4
January 1999	0.2	1.3	10.6		106.3
February		–2.1	10.5		
March			10.5		

■ FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1989	99.5	110.5	9.4	161.1	101.4
1990	101.4	112.1	8.9	207.8	94.5
1991	101.2	110.8	9.4	191.2	95.4
1992	101.5	109.5	10.4	202.5	94.2
1993	101.7	105.2	11.7	209.1	99.5
1994	101.5	109.4	12.3	280.7	102.7
1995	101.6	111.7	11.6	350.3	98.7
1996	101.2	111.9	12.3	389.5	102.4
1997	102.3	116.3	12.5	432.9	106.3
1998	105.0	121.5		463.0	109.3
1st qtr.1998	2.3	7.1	12.1	476.0	108.7
2nd qtr.1998	3.3	5.4	11.9	482.3	110.4
3rd qtr.1998	2.2	3.4	11.8	454.2	109.4
4th qtr.1998	2.9	2.5	11.5	456.2	109.3
April 1998	4.0	4.2	11.9	450.1	109.1
May	1.2	5.9	11.9	476.5	109.7
June	4.9	6.0	11.8	458.3	110.4
July	2.9	3.3	11.8	450.1	110.9
August	2.0	3.3	11.8	468.4	110.5
September	1.7	3.4	11.7	446.0	109.4
October	2.9	2.0	11.6	444.0	108.7
November	4.4	4.4	11.5	474.5	108.8
December	1.5	1.3	11.5	450.1	109.3
January 1999	–0.8	2.3	11.4		109.3
February			11.5		
March					

■ ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1989	123.2	118.7	10.0	98.3
1990	120.6	118.0	9.1	93.7
1991	124.5	116.9	8.8	97.2
1992	126.9	115.4	9.0	91.6
1993	123.1	113.0	10.3	99.1
1994	115.6	119.9	11 4	104.3
1995	109.9	127.3	11.9	103.5
1996	107.3	123.7	12.0	106.3
1997	114.6	127.1	12.1	114.6
1998		128.2		115.3
1st qtr.1998	2.3	3.4	12.1	116.3
2nd qtr.1998	3.0	1.3	12.3	115.6
3rd qtr.1998	2.7	0.4	12.3	112.1
4th qtr.1998	2.9	–1.7		115.3
April 1998	2.4	0.7	n.a.	116 1
May	3.1	2.9	n.a.	115.6
June	3.5	0.3	n.a.	114.9
July	3.9	1.5	n.a.	113.6
August	2.7	–1.6	n.a.	112.8
September	1.5	1.5	n.a.	112.1
October	2.5	1.6	n.a.	112.3
November	3.9	–0.3	n.a.	113.8
December	2.4	–6.3	n.a.	115.3
January 1999	2.0			116.8
February				
March				

■ UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1989	120.1	114.0	7.3	123.8	95.1
1990	121.0	113.7	7.1	97.5	91.9
1991	119.3	109.8	8.8	68.4	97.0
1992	120.2	110.2	10.1	69.9	100.5
1993	123.9	112.6	10.4	76.5	106.2
1994	128.4	118.7	9.6	93.7	109.9
1995	130.1	120.7	8.7	106.9	109.3
1996	134.1	122.1	8.2	131.3	112.8
1997	141.2	123.0	7.0	157.8	114.5
1998	145.5	123.8		163.2	111.7
1st qtr.1998	4 8	0.0	6.4	154.1	114.0
2nd qtr.1998	3.2	1.3	6.2	162.1	112.7
3rd qtr.1998	2.9	0.7	6.2	164.7	110.2
4th qtr.1998	1.4	0.6	6.3	171.9	111.7
April 1998	3.4	1.7	6.3	158.5	113.5
May	4.4	0.8	6.2	163.4	113.0
June	1.8	1.5	6.2	164.4	112.7
July	2.7	0.1	6.3	164.2	112.2
August	2.5	1.2	6.2	163.7	111.5
September	3.7	1.0	6.2	166.0	110.2
October	1.1	0.5	6.2	172.1	109.9
November	2.5	1.1	6.2	172.9	110.4
December	0.7	0.1	6.3	170.7	111.7
January 1999	1.1	–0.3			112.9
February	1.3	–0.1			
March					

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

Kosovo war raises tensions on budget

Fighting is costing $20m-$40m a day and the Pentagon's military budget contains no actual provision for going to war

By Deborah McGregor in Washington

The growing cost of the war in Yugoslavia is exacerbating budget tensions between the Clinton administration and key Republicans.

The administration has signalled that it plans to ask Congress for new emergency funds to pay for the war, which is estimated to be costing the US between $20m and $40m a day, according to the Center for Strategic and Budgetary Assessments.

The US portion of the Nato air campaign against Yugoslavia cost up to $500m in the first 15 days, the centre reported in its latest weekly update of the war costs. In total, the Nato campaign, known as Operation Allied Force, has so far involved about 5,000 sorties of which 3,400 have been flown by US aircraft. Military analysts say the price tag could easily climb above $2bn if the air campaign continues.

By comparison, the US air campaign during the 1991 Gulf war cost between $14bn and $15bn, based on 70,000 sorties (round-trip missions by individual aircraft).

The administration's budget planners are using the centre's estimates, as well as those of the Pentagon and congressional committees, to try to arrive at a funding request to lay before Congress. Establishing cost is a tricky task, since no one is sure what shape the allied military campaign will take.

At the weekend, the administration appeared to soften its rhetoric concerning the possible use of ground troops. Before the bombing began, Nato plans for a peacekeeping force had included 4,000 US troops. The Pentagon had estimated the US portion of that cost at $1.5bn-$2bn a year. But a ground offensive involving deployment of troops to engage the Yugoslav army directly or return Kosovar refugees would cost considerably more.

The funding debate arises, in part, because of an odd fact about the US military budget. It does not contain provisions for actual fighting. The Pentagon's $270bn annual budget covers almost everything except the costs of going to war. This gives Congress exceptional leverage over the administration in times of a military crisis, a fact already underscored by the budding debate over how the administration will craft its funding request.

Clinton visits bomber crews in Louisiana involved with action in Kosovo – but how much does the action cost? Reuters

President Bill Clinton is most likely to ask for "emergency" spending that does not need to be offset by corresponding cuts in other programmes. But many Republicans in Congress can be expected to balk at such a request, preferring instead to guard their own priorities, such as future tax cuts, by demanding that the military funding be "paid for".

In the near term, however, the Pentagon's main concern is to assess the immediate costs of the military campaign. With the US stock of cruise missiles running low, for example, the air force has requested that Congress rechannel $51m in funds from the 1999 budget year to convert 92 nuclear-tipped cruise missiles into conventional ones.

Chávez sets out to redraw Venezuela's political map

President may lose more than he wins from special powers. **Raymond Colitt** reports

In just over two months in office, President Hugo Chávez, the former coup leader, has launched unprecedented attacks on corruption and inefficient state spending and set the stage for a constituent assembly that is to redraw Venezuela's political map.

Now, in an attempt to tackle the country's daunting economic challenges, he is enmeshed in a power struggle with congress, threatening to declare a state of emergency if legislators deny him special powers to implement far-reaching reform measures.

While these measures would go a long way to help the government reduce a dramatic budget deficit and overhaul a collapsed state apparatus, analysts say Mr Chávez's confrontation with congress could trigger a constitutional crisis and alienate investors.

"At stake is the economic and political stability of Venezuela, one of the world's leading oil exporters," says one foreign observer in Caracas.

The bill before Congress would raise an estimated $1.5bn-$2bn in taxes, allow the government to renegotiate its $4bn-plus foreign debt obligations, and pave the way for private sector investment in the power, gas, and other economic sectors.

Yet analysts say Mr Chávez could be losing more than he may win from a special powers law or state of emergency. "If congress backs down or he declares a state of emergency, it raises the prospects of an unchecked, authoritarian government. Either way it raises a lot of uncertainty among investors," says Luis Garrido, chief analyst with Merinvest, a local investment bank. "We simply don't know what is going to happen. It's a political game and we can't fully gauge the risk."

Such uncertainty has sent Venezuela's equity market into a tailspin, just as investor sentiment towards Venezuela had begun to improve with the recovery in the price of oil, the country's main source of income. The index of the Caracas stock exchange had fallen nearly 9 per cent since the middle of last week although it had begun to stage a recovery by midday yesterday.

"It is not clear whether he is simply seeking a certain level of confrontation or is wanting to rule by decree," says Joyce Chang, emerging markets strategist at Merrill Lynch, the investment bank, in New York. "His motives are an enigma."

Some observers say Mr Chávez's real interest is to build political capital before this month's referendum on a constituent assembly. Indeed, he defied congress despite its willingness to grant him most of the additional powers he seeks. "Economics has little to do with this. It's a show of force," says Sal Cabreras, a Caracas-based political analyst.

Yet Mr Chávez's all-or-nothing strategy could backfire and trigger a full-blown constitutional crisis if his poor rapport with congress continues and not all of his demands are met. "We are in a potential gridlock. This is a real crisis situation," says Ricardo Penfold, chief analyst with Santander Investment in Caracas.

Whatever additional powers Mr Chávez may get or take in coming days, the responsibility of economic recovery will be exclusively in his hands. "He will have no more excuses, he'll have to act," says Ms Chang. "It will all stop with him."

Venezuela emergency, Page 15

NEWS DIGEST

MISTRIAL ON TWO OTHER COUNTS

McDougal is found not guilty in Whitewater trial

Susan McDougal has been found innocent of obstructing Kenneth Starr's Whitewater investigation and the judge declared a mistrial yesterday on the other two charges against her.

US District Judge George Howard declared the mistrial on two criminal contempt counts just before jurors delivered the innocent verdict in the courtroom.

"*I had a fair trial and my day in court and I thank you for* that," Mrs McDougal told the judge in court after the jury left the courtroom.

The prosecutor, Mark Barrett, said a retrial was "obviously an option". Mr Barrett said he hoped prosecutors would decide within a couple of weeks whether to try again.

Mrs McDougal was charged with obstruction and criminal contempt for refusing to testify to grand juries in the Whitewater probe in 1996 and in 1998. **AP, Little Rock, Arkansas**

US SHIPBUILDING

Antitrust fears may hit merger

A proposed $1.4bn takeover by General Dynamics of Newport News Shipbuilding has run into trouble, John Warner, chairman of the Senate armed services committee, said yesterday.

"Approval of the proposed merger is now less likely," the Virginia Republican said.

"*The Department of Defence is finding that the case* against the merger is getting stronger every day." Mr Warner and Chuck Robb, a Democratic senator from Virginia, have expressed concerns over the deal, which would merge the only two makers of nuclear-powered submarines and concentrate about 80 per cent of the nation's shipbuilding into one $5bn company.
Reuters, Washington

BRAZIL CENTRAL BANK

Officials to be probed

The Brazilian central bank yesterday set up an inquiry to investigate allegations that a local bank paid bribes to officials at the central bank in return for inside information on currency policy.

The federal police are also opening an investigation into claims in a magazine report that Salvatore Cacciola, the former owner of Banco Marka, which recently failed, paid central bank officials for inside tips. The inquiries follow a growing scandal over events at Banco Marka, which went into liquidation in January despite being sold dollars by the central bank below the market price at the peak of Brazil's currency crisis. **Geoff Dyer, São Paulo**

On the web today

- Welcome to Oregon, but please don't stay
- Foreign banks struggle to find Canadian foothold
- Chile may curb short-term capital flows again

http://www.ft.com/americas

TRANSPORT TRUCKS FORM BLOCKADE

Minister to consider tax on hauliers entering UK

By George Parker and John Griffiths

Ministers are considering imposing new taxes on European Union hauliers entering Britain, in an attempt to appease protesting truckers in the domestic industry.

John Reid, transport minister, revealed yesterday that he was considering the option, as lorry drivers again blockaded streets in London and seven other cities around Britain.

Mr Reid said he would look at a proposal by the opposition Conservative party for a system of vignettes to be applied to all foreign hauliers entering Britain.

The system already applies in some EU countries, including Germany and the Benelux states, and costs hauliers about £5 ($8) a day.

The Conservative plan, which dubs the vignette a "Brit disc", would effectively decrease the competitiveness of visiting hauliers using UK roads. It would also recycle the proceeds to reduce vehicle excise duty for the domestic industry.

Mr Reid's officials said the vignette idea was under consideration, but would only be given detailed scrutiny once the government had carried out a full evaluation of the competitiveness of the UK industry.

British hauliers claim the rise in diesel fuel duties in last month's Budget, and rising vehicle taxes for certain trucks, has given their continental rivals a competitive advantage.

While the vignette scheme would almost certainly help to quell the lorry protests, the Department of Environment, Transport and Regions said it was studied and rejected by the last Conservative government.

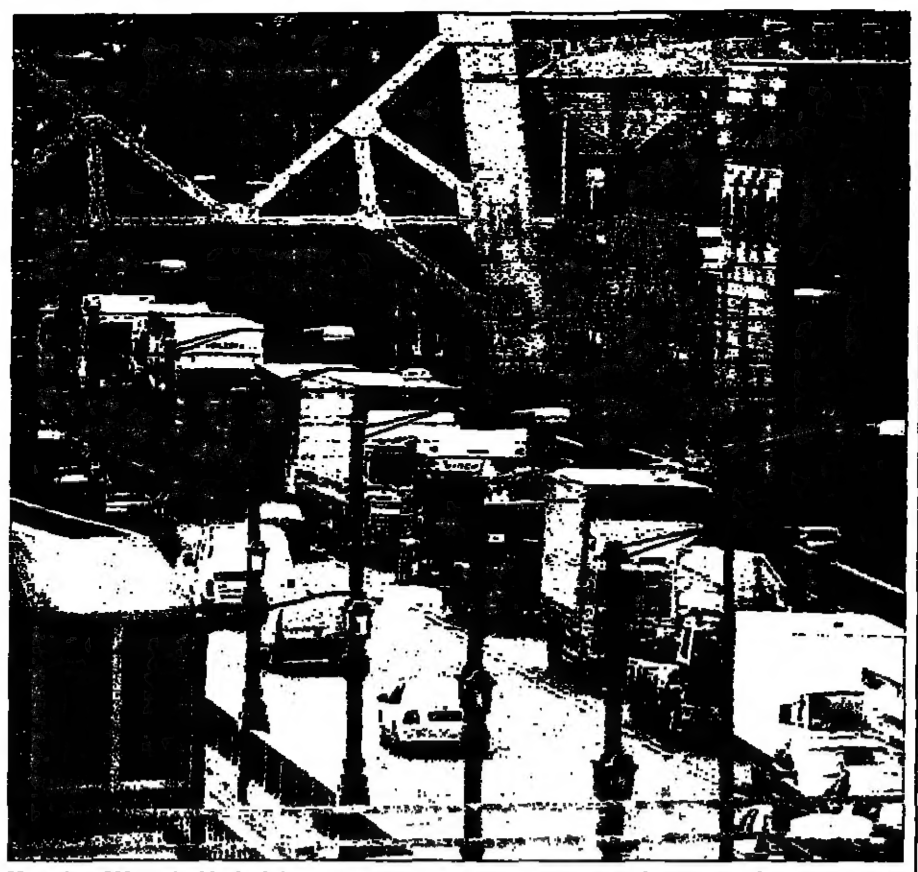
Yesterday's demonstration by hauliers was accompanied by a show of solidarity from the rail industry, which accused the government of using a "blunt instrument" in raising diesel and petrol duties by 6 per cent more than the rate of inflation.

One of the government's main explanations for the increase is to shift a greater volume of goods from road to rail on environmental grounds. But they were criticised by Brian Mellitt, chairman of the Rail Forum, representing rail freight operators, as falling equally hard on the rail freight industry.

"People forget that many freight locomotives are themselves diesel operated, so the increased costs fall on the rail industry as well as the hauliers," he said.

"Also the fuel price escalator does nothing to impact on the foreign hauliers who are free to undercut not just British truckers but also Britain's rail operators."

Truck drivers jammed routes in cities including London, Manchester, Edinburgh, Newcastle and Exeter, and declared they would hold further protests unless fuel costs were cut.



More than 200 trucks blocked the centre of Newcastle, in north-east England, during the protest PA

Retailers see sales figures begin to improve

By Christopher Adams, Christopher Brown-Humes and George Graham

Retailers have detected the first signs of an underlying improvement in sales, following interest rate cuts that have dramatically reduced the cost of borrowing.

In its latest monthly survey, published today, the British Retail Consortium reports annual growth of 3.9 per cent in the value of like-for-like sales during March, the strongest since April last year and a big increase from the figure of 1.3 per cent in February.

The survey, which covers half of all UK retail sales, is the latest of several forward-looking indicators to suggest consumer confidence, and the desire to spend, is picking up.

However, the retail figures should be treated with caution. The timing of Easter, which came earlier this year than last, may have helped lift volumes since spending tends to rise before the holiday. After excluding the last week of March, the consortium estimates sales rose 0.9 per cent. Pamela Webber, the consortium's economist, said: "It's encouraging since this is the third month in a row we've had growth. We're hopeful that retailing is pulling out of the trough. But the recovery is slow, given consumers are better off and there hasn't been any more bad news on the economy."

Borrowers yesterday received an extra benefit as Halifax and Abbey National, the UK's biggest mortgage lenders, cut their mortgage rates by 0.1 percentage points, continuing a process that has taken home loan rates to 34-year lows. But they did not match last week's quarter point reduction in base rates by the Bank of England, the UK central bank, saying they had to think of the impact on their savers.

NEWS DIGEST

ELECTRONICS

NEC Semicondictor to invest $56m in Scots plant

NEC Semiconductor, the chip-mking arm of the Japanese electronics company, is to invest further £35m ($56m) in its plant at Livingston in ScotlandThe investment will upgrade the site's product range nd increase output. Hideto Goto, plant managing directorsaid the extra spending was a sign of its faith in the factor after a difficult year that saw a slump in the world marst. The new investment will enable Livingston to add the last versions of 64 MB D-Ram and 128 MB D-Ram chips. will also permit a jump in output from the equivalent f 4m 64 MB chips a month to 7m a month.

The Livingston plant supplies abor half NEC's European market for memory chips, applicatiorspecific integrated circuits and micro-computer devicesIt employs 1,630 people, the payroll having dropped b natural wastage from a peak of 1,700 a year ago.

● BPS Teleperformance said yestercy it was setting up a call centre in Edinburgh, the Scottis capital. The centre, to serve companies located in Scotlar', will initially employ 70 people. BPS Teleperformare is a specialist teleservices company based in Paris tht operates 97 centres worldwide. It also has sites in Loron and Birmingham. James Buxton, London

GOVERNMENT STATISTICS

Office hits further proIems

The Office for National Statistics, the govnment's official number gatherers, admitted yesterday it Id hit a further problem compiling unemployment data, flowing controversy last year over its average earnings sies. Youth unemployment statistics have shown errat movements, likely to make it more difficult to judge theuccess of the government's New Deal programme to aidhe younger jobless. The ONS said it was unable to corct for seasonal patterns in employment rates for thos aged between 18 and 24, the group targeted by e New Deal.

As a result, the ONS labour market statisis – to be published tomorrow – will remove the separe seasonally adjusted figures using the standard Internatinal Labour Organisation measure of employment for thcs aged between 18 and 24. Richard Adams, Londc

WATER INDUSTRY

Price rises proposed

Four water and sewerage companies yesterdaset out plans for price rises, even though Ofwat, the irustry regulator, has proposed cuts. Industry executives sd they would be unable to finance the government's eironmental and water-quality investment targets and fur price cuts.

Yesterday, Yorkshire Water, North West WateHyder and Anglian Water said they would require real ice rises over the period to fund their capital expenditure ogrammes, with none offering an initial price cut. is compares with Ofwat's plans, in its Prospects for Pris document in October, for initial price cuts of 15-20 pecent, followed by bill increases to leave total bills 2-12 er cent lower at the end of the period. Thorold Barker, Lndon

CONSTRUCTION

Output forecast to rise this 'ear

Construction industry output will increase during thesecond half of 1999 and strengthen over the next two yrs, the National Council of Building Material Producers recast yesterday. Commercial construction wil remaintrong this year – buoyed by an increase in school and hostal work through the government's private finance initiate, which aims to attract private-sector cash to public instructure projects. The rail link to the Channel tunnel between England and France will help lift infrastructu work during 2000 and 2001 and will offset reductions road investment.

Total construction output, which increased by 1.5 pi cent in 1998, is forecast to grow by 1.5 per cent againis year, by 3 per cent in 2000 and by 3.5 per cent in 200 Construction output in housing is forecast to gow by per cent this year, by 4 per cent in 2000 and by 2.5 pe cent in 2001.

Charles Novotny, chairman of the BMP's forecasting panel, said: "Recent interest rate cuts have heped to lif industry confidence from the low point reachedat the ed of last year, especially in the private housing setors. Th increased investment in hospitals and school budings w be a major source of commercial-sector growthover the next three years as various millennium-related pojects a completed." Sathnam Sanghera, London

INSURANCE

Arson 'costs $3.2m a day'

Arson costs insurers almost £2m ($3.2m) a day ard is associated with up to 75 per cent of blazes attened by fire services, the Association of Local Authority Rik Managers was told yesterday. Bill Gough, divisional ofcer with the West Midlands Fire Service, said: "Communitie of both England and Wales are suffering in excess of180,000 fires a year that can be attributed to the activities c arsonists."

Insurers who were struggling against fraud every lay were more likely to investigate large claims. Howevr, in the case of small claims many insurers did not ever require evidence of a fire report. Andrew Bolger, Lndon

THE ECONOMY FOR THE FIRST TIME IN 12 MONTHS, SURVEY SHOWS MOST INSTITUTIONS ARE OPTIMISTIC

Financial services sector takes upbeat view

By George Graham, Banking Editor

British financial services companies have begun to shake off their fears of economic slowdown, according to the latest survey of the sector by the Confederation of British Industry, the UK's principal employers' organisation, and the PwC accountancy firm.

The quarterly survey, carried out a month ago, showed that 38 per cent of the 190 banks, building societies [mutually owned savings and home loans institutions], securities traders, fund managers and other financial institutions were more optimistic than they had been three months earlier. Only 14 per cent were less optimistic.

This was the first time for a year that more companies were optimistic than pessimistic.

The survey sample includes many institutions with non-UK owners, as well as many whose business is conducted outside the UK. Most of the growth, however, has come in domestic UK operations.

Volumes of business with overseas customers remained flat for the second quarter in succession, with only a modest upturn expected over the next three months. "Confidence seems to be returning following the lows seen in the second half of last year, which then reflected concern about world financial turmoil and the apparent threat of a UK recession," said Sudhir Junankar, CBI associate director of economic analysis.

Overall business volumes picked up, and many firms expected this trend to continue. Securities traders and insurance brokers reported the largest increases in volume, while general insurers and building societies reported falls.

"Business volumes are staying above normal, although still below the highs seen in the first half of 1998," Mr Junankar said.

For the next three months, 46 per cent of those questioned expected further increases in business volumes. Of these, general insurers and building societies expected a decline.

Business with industrial and commercial companies continued to decline and only slight increases are predicted. Trading volumes with financial institutions, on the other hand, grew steadily, while retail customers continued strong growth.

"Domestic competition is now the most likely constraint on business over the next 12 months," said John Hitchins, senior banking partner at PwC.

N IRELAND BLAIR PUSHES FOR BREAKTHROUGH

Little sign of progress on eve of resumed talks

By John Murray Brown in Dublin

Tony Blair, the UK prime minister, is unlikely to join the resumed peace talks in Northern Ireland this week unless there is a chance the parties can agree a breakthrough in the impasse over handing in terrorist arms, according to British officials.

The UK and Irish Republic governments have proposed a compromise that would see Sinn Féin, the political wing of the Irish Republican Army, taking ministerial seats following a "collective act of reconciliation" in which paramilitaries would "put some arms beyond use" and the British army would announce a big reduction in its security presence.

But as Mo Mowlam, chief Northern Ireland minister in the UK government, and David Andrews, the Irish foreign minister, prepared to chair bilateral meetings with the parties today, there was little sign of agreement between the Ulster Unionists, the biggest pro-British party, and Sinn Féin.

David Trimble, the Ulster Unionist leader and Northern Ireland first minister, said in recent statements that senior republicans had not ruled out decommissioning. "I noticed that they don't repeat what IRA statements had contained up until a fortnight ago – in other words, an adamant refusal to decommission in any circumstances whatsoever," he said. Mr Trimble added that he would "need to wait and see what their position actually is".

Under the joint proposals, the UUP would have the power to reject the Sinn Féin nominations for ministers if decommissioning had not taken place to the satisfaction of the panel headed by General John de Chastelain.

Unionists are also unhappy about proposals for a joint day of remembrance for all victims of "the Troubles" – giving IRA terrorists equal status, unionists complain, with IRA victims.

DEVOLUTION SHAKE-UP PLEDGED ON SCOTS LAND OWNERSHIP, AS LABOUR ATTACKS WELSH NATIONALISTS

Minister makes schools a priority

By James Buxton and Andrew Parker in Edinburgh

The governing Labour party yesterday made a push to improve Scotland's education system the centrepiece of its manifesto for elections to the new Scottish parliament.

It also attacked Plaid Cymru after the nationalist party launched its manifesto for elections to the Welsh assembly. Both polls are on May 6.

Donald Dewar, chief minister for Scotland and Labour's candidate for first minister – prime minister – in the parliament, said his first action on taking power would be approving an "education for a nation" act.

He said Scotland needed "to restore in the next century the reputation it had in past centuries as a world leader in education".

Labour would restore teachers to their traditional status in Scottish society, using financial rewards for the best through a pay and promotion structure. Assistants would also be employed to take on administrative tasks.

Mr Dewar said ministers would be under a statutory duty to ensure higher standards were achieved. "If the education minister doesn't make the grade, he or she won't be education minister," he added. The standards would be agreed between parents, local education authorities and government.

Mr Dewar also said a Labour administration would legislate to abolish the feudal system of land tenure in Scotland – which has existed since medieval times – and to implement land reform giving communities the right to buy the land on which they lived. He would also permit the Scottish administration to hold up land sales to assess the public interest.

The manifesto reiterates that Labour would not levy the so-called tartan tax – a 3p income tax surcharge – in its first term. It hints that Labour might not use the Scottish parliament's power to abolish the uniform business rate, saying Scottish business must not be asked to shoulder a rate burden that affects its ability to compete against companies in other parts of the country.

The manifesto was immediately attacked by the Scottish National party because most of it could be implemented by the UK parliament at Westminster in London and parts of it could only be carried out there.

In Wales, Peter Hain, Labour's campaign manager, claimed Plaid Cymru would "take Wales down the path to separatism and independence".

The nationalist manifesto accused Labour of adopting the policies of the former Conservative government and ignoring Welsh interests. Plaid Cymru said its promises of free dental and eye checks and more money for early-years "edu-care" would be paid for from savings in the relevant departmental budget.

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ENVIRONMENT GREENPEACE

Ecowarriors make peace

The environmental action group says it is increasingly discussing solutions with companies, writes Vanessa Houlder

For corporate image makers, few adversaries are more unnerving than a pressure group such as Greenpeace. Its aggressive campaigns against prominent companies, including Hoechst, Shell, Monsanto, Novartis and Nestlé, have inflicted serious damage on these businesses' reputations.

The power of Greenpeace to shift public opinion against a company and its products is widely acknowledged. "Greenpeace is doing a better job than we are," said Monsanto recently, admitting that its efforts to promote genetically-modified foods in Europe had backfired.

But can Greenpeace justify its campaigns? Or are they irrational, irresponsible and intrinsically anti-business, as many critics claim. One Nobel prize-winning scientist called it "a group of terrorists appealing not to reason but to ignorance and emotional blackmail".

Thilo Bode, a political economist and former banker who is the executive director of Greenpeace International, vigorously defends his organisation against these charges. He says it is not hostile to business. Indeed, he claims that its relationship with business is shifting from hostility to mutual respect.

He dismisses the charge that Greenpeace is unaccountable and irresponsible. "Our role is to provide information which has not been provided by others. I think we are absolutely necessary for democracy."

What about the accuracy of the information issued by Greenpeace? Mistakes, says Mr Bode, are very damaging to an organisation that tries to adopt the moral high ground. Despite its success in forcing Royal Dutch Shell to abandon plans to sink the Brent Spar oil storage platform in 1995, Mr Bode says the admission that it was wrong in one of its claims about the platform was a low point in its 25-year history.

Perhaps surprisingly, he shares some of his opponents' concerns about media hype. "Many media like sensation. They like the spectacular side of our work but are not so good at communicating facts and background information."

Campaigns in developed countries are no longer a 'win win' game

What about the perceived "unfairness" of Greenpeace's tactics?

For example, it focused solely on Shell over the Brent Spar incident, even though Exxon owned 50 per cent of the platform. In Germany, its current campaign against genetically-modified foods has singled out a Nestlé product. Greenpeace members are asked to fax letters of complaint to food shops where they find the product.

The decision to "pick on" a particular company is a pragmatic one, rather than a desire to attribute guilt, says Mr Bode. Focusing on individual companies clarifies the issue for consumers, increasing the pressure they can bring to bear and, hopefully, rippling out to force other companies to change their ways.

"Corporations are very susceptible to public opinion and vulnerable to consumer pressure," says Mr Bode.

In spite of its aggressive tactics, Greenpeace says it is developing an increasingly constructive relationship with companies. This is partly because complex issues, such as the ozone hole and climate change, require more discussion about solutions and less about problems.

A surprisingly large number of prominent industrialists, including executives from BP Amoco, Enron and Unilever, have appeared at Greenpeace conferences. It helps, says Mr Bode, that the organisation makes clear that it is not against profit-making. "We always say: 'We understand you. Making profit is not a bad thing'."

Going for the image: Bode, the executive director, favours public opinion as a weapon Greenpeace

The most visible sign of Greenpeace's increasing focus on solutions, rather than problems, is the role it played in the development of chlorine-free paper, a CFC-free fridge (to avoid harm to the ozone layer), a PVC-free credit card and the fuel-efficient prototype car SmILE, which it dubbed "first aid for the climate".

In each case, the development of innovative technology has been part of a broader campaign. Greenpeace has wanted to demonstrate that, contrary to the protestations of business, there is an alternative to environmentally-damaging products.

Greenpeace is emphatic that it will not profit from selling or licensing products. None the less, the more fundamentalist among its members are perturbed by the endorsement of a product such as the SmILE car, which still pollutes the atmosphere, albeit to a reduced extent. Moreover, fridges, newspapers and cars have little visual impact, a difficulty for an organisation that works with "pictures, images and emotions".

Nevertheless, Mr Bode says that opinion polls of Greenpeace supporters show that they are in favour of offering solutions.

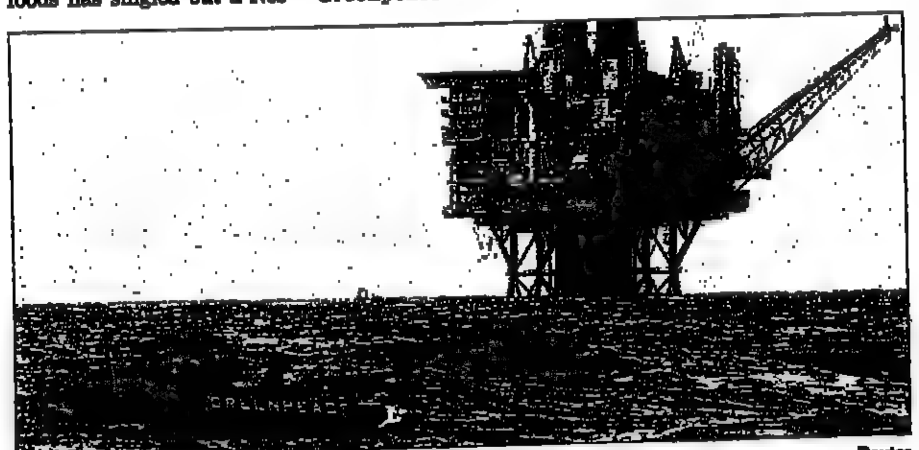
And he believes there may be more scope for Greenpeace to discover and promote environmentally-friendly technologies that have been neglected by business. Existing, unpatented technology – even that invented as long as 80 years ago – can be updated using new materials and electronics.

Underpinning its venture into environmental technology is a recognition that the task of an environmental group is becoming particularly difficult in wealthy parts of the world.

"In general, the challenge for environmental groups is their own success," says Mr Bode. "The problems are those of the consumption of resources and traffic – but people like cars. It is difficult to explain to people that their way of life is potentially responsible for global destruction and show this in images. This is the problem we are facing."

Unlike developing countries, where nearly everyone benefits from tighter environmental standards, Greenpeace's campaigns in developed countries are no longer a "win win" game. "There will be winners and losers," says Mr Bode, citing the example of coal miners who are losing their subsidies in the quest for cleaner energy.

It is hard to inspire people about environmental issues if they are anxious about their jobs, he says. "To fight for idealistic goals you need a society in social harmony."



Sea view: the Greenpeace vessel Altair shadows the Brent Spar oil platform Reuter

INFORMATION TECHNOLOGY BRIEFS

Radiolinja opens GSM airways to text-based chat

Finnish technology group Radiolinja has launched the first GSM text chat service. "Askit" enables cell phone users to send text messages anonymously and correspond with other phone users.

The service supports a number of channels which enables different interest areas for participants to discuss specific topics with like-minded users.

Participants need a Radiolinja connection and a GSM phone with a text message facility. Users must register via their phones to a number that operates the service and can then enter the chat room they want.
www.radiolinja.fi

Flat monitor for multimedia use

A new flat panel multimedia monitor has been introduced by NEC, the Japanese group. The MultiSync LCD1400M has a digital colour TFT panel with a viewing angle of 90 degrees. It offers connectivity for videoconferencing, cameras, keyboards and scanners.

NEC says the new product brings high resolution and flicker-free imaging. The screen depth is less than four inches and it weighs 5kg. Other features include an on-screen manager, power management, and plug and play for Windows 95/98. It will retail for £662 plus VAT.
www.euronec.com

Check Point to secure sign-on

Check Point, the Israeli-based computer security group, has developed what it claims is the industry's first security solution for dynamic, user-based, single sign-on to a network.

This has been achieved through the integration of its FireWall-1 and VPN-1 enterprise security solutions with the group's new Meta IP User-to-Address Mapping (UAM) technology.

The development gives network administrators a solution that can match user identities and security profiles with IP network addresses that are individually assigned and often changing. And the group adds: "For the end user, this integration provides the convenience of single sign-on to the network without the use of multiple passwords."

Check Point's UAM technology "enables transparent and automatic implementation of used-based security policies in dynamic network environments", it says.
www.checkpoint.com

Authentic article in the hand

Another security development has been announced by ActivCard. The IT security systems group has launched a hand-held authentication token. ActivCard says the product is an "easily deployable, low-cost authentication solution for managing corporate information and creating secure internet business applications".

The token, known as ActivCard One, allows network administrators to control, distribute and manage corporate credentials using static and dynamic passwords. This enables employees, partners and customers to access a network remotely using one password, thereby eliminating the need for multiple log-on and verification procedures.

The token is activated by entering a PIN number on its display pad and a one-time password is generated for secure Windows log-in, remote access and Internet access through firewalls.
www.activcard.com

Christopher Price

TIM JACKSON
ON THE WEB

Power to the purchaser

The latest trend in e-commerce allows buyers, not sellers, to set prices

"Buyer-driven commerce" – the idea of putting the power to set prices in the hands of buyers rather than sellers – is the flavour of the month on the internet. PriceLine.com, the company that pioneered the idea of "naming your price" for air tickets, was valued at more than $10bn on its Nasdaq flotation last week.

PriceLine works by keeping a database of air tickets and giving buyers a one-shot chance to say how much they are willing to pay to travel a given route on a given day. But now two much smaller companies are trying to build new businesses on a model that is technically more sophisticated.

One is DealTime.com, a start-up from Israel that has moved its headquarters to the US.

DealTime's web site offers an easy-to-use agent that lets you specify a product using different criteria and then searches the web for the lowest prices. It is smarter than some agents because it includes information about time-limited deals from auctions and close-out sales – hence the name.

DealTime's unique feature is a "notifier" – downloaded software that sits on the desktop, invites you to say how much you are willing to pay for a particular product and contacts you when someone is offering it at the right price.

The service convinced Dan Ciporin, DealTime's chief executive, to join the company from MasterCard. He wanted to buy a notebook computer with a list price of more than $3,000. Using DealTime he found a price of $2,600; a few days later, the notifier informed him of a merchant that had cut its price to $2,300.

DealTime's service is free to users. Its business model is to show paid advertisements on the desktop notifier; when it has traffic and market power, it will charge merchants for positioning on the system.

Achieving this second objective will be tough; like Green Shield and other trading stamps, the service may be one that merchants hate because it forces them to compete on price and to pay for the privilege. They will feel they have to participate only when the customer base is enormous.

As yet, DealTime claims fewer than 20,000 downloads but it has done a deal with Lycos that will repackage the notifier as a way of delivering up-to-date news and stock prices in a window for MyLycos users.

A different approach can be seen at Accompany.com in San Francisco. Accompany's aim is to group consumers to pool their buying power – and thus get lower prices from suppliers which ship directly to them – and to make money for itself by charging transaction fees to the buyers.

The system works in the form of "buy cycles", where Accompany offers a single product for a fixed period, at present one day. As buyers join the circle, using their credit cards to guarantee their willingness to buy, the price falls and, at the end of the cycle, all participants pay the same low price as the last entrant. Last Thursday, for instance, the company sold 50 Palm V PDAs at a price of $350 each, excluding shipping – a feat that was achieved, according to Jim Rose, the company's co-founder and chief executive, with only a modest negative margin of 2 per cent.

The problem is that the system gives users no opportunity to say they would be willing to buy at a certain price, only to make a yes-no decision at the current level. Mr Rose says Accompany is working on a way to fix this shortcoming.

Accompany is likely to face two challenges in growing. One, obviously, is finding inventory; Mr Rose believes the best deals will come directly from manufacturers. Before starting the business, he was a consultant advising high-tech companies on channel strategies, so he has some helpful contacts. But in the short-term, it is forced to buy from distributors.

Another challenge is how to solve the chicken-and-egg problem of getting large numbers of buyers in. Accompany has one neat idea that will help: a programme called "click and tell" that invites people who join a buy cycle (and others) to give the e-mail addresses of five friends who will then be told about the service.

This form of viral marketing has proved spectacularly successful for a few companies, such as Mirabilis, the company that originated the ICQ chat service. Yet if it does not work quickly, Accompany will have to start to invest heavily in advertising. PriceLine spent $30m in a single month on radio adverts when it launched.

Accompany has raised only $400,000 in seed money but it hopes to sell $20m of product in its first year and $250m in its second year. Revenues from transaction fees would be $1.5m and $16m on these projections.

Both of these businesses – DealTime is planning to launch a demand aggregation service of its own in a month or two – lack the crucial advantage that has made online auctions so successful. In an auction, the prices start attractively low and then rise. In the Accompany model, the price starts unattractively high and then falls. This difference is likely to have a big effect on consumer behaviour: it provides an unhelpful incentive to do nothing until the deal becomes attractive. It is the fact that early participants are rewarded in an auction which helps to make the market liquid.

Mr Rose says that Accompany will give an appropriate incentive by reducing or removing the transaction fee for people who join a buy cycle early. It is not clear whether this will be enough to overcome the disadvantages of the model. Both of these companies must hope that buyers learn from experience and, ultimately, recognise the benefit of co-operating with other consumers.

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PEOPLE ON THE MOVE

Commerzbank Global Equities steps up US expansion plans

Commerzbank Global Equities, the international equities division of the German bank, is stepping up its expansion plans in the US with the appointment of five professionals.

Antony Smithie, formerly head of equity syndicate at HSBC Securities, is joining as head of equity syndicate in New York. **Edward Strover**, formerly a senior vice-president at Lehman Brothers, has been recruited as a senior sales person for Japanese/Asian cash equities.

Doug Hiscano joins as a senior sales person in the corporate equity derivatives division, having run Bear Stearns' corporate equity derivatives effort.

Steven Lau is joining as a senior index arbitrage trader from Nationsbank Montgomery, where he ran index arbitrage and program trading. The fifth recruit is **Karen Reynolds**, who is joining as a senior sales person in high net worth equity derivatives. She was with JP Morgan as a senior marketer of equity derivatives to private clients.

Ross Garon, head of Commerzbank global equities in the US, said: "These additions to our New York operations significantly enhance our international equities capabilities in the US. This helps to keep our rapid expansion into this market firmly on track."

William Lewis, New York

Deutsche raids Merrill team

Deutsche Bank Securities, which is in the process of merging with Bankers Trust, has poached five collateralised debt obligation professionals from Merrill Lynch, the US-based investment bank.

The five are: **Marc Pfeffer, Dean Aotani, Michael Herzig, Steve Kasoff** and **Vanitha Badari**. They have been recruited by Deutsche as a team and will report to Thomas Gahan, who recently left Merrill to become global head of credit products at Deutsche.

Once the BT takeover is complete, the group will be integrated with BT's CDO group and jointly managed by Pfeffer and Brian Zeitlin of BT. "The two combined should be the pre-eminent group on the Street," said Gahan.

Edson Mitchell, head of global markets at Deutsche, added: "Together the two groups will represent an industry leadership position in this innovative structured credit product line. This team hire is another concrete step toward meeting our objective of being a leader in the global debt markets."

William Lewis, New York

New broom sweeps at EDS

Three months after taking over as chief executive of Electronic Data Systems, **Dick Brown** is sweeping through the Texan computer outsourcing group's executive ranks.

In the past year EDS has bid farewell to its chairman, chief executive, finance director, head of human resources, and chief information officer.

Now Brown is bringing in an executive vice-president of leadership and change management, **Troy Todd**. Todd, who will take up the job this week, retired recently as chief executive of Cable & Wireless Panama, a joint venture between Intel, the country's former national telephone company, and Cable & Wireless – the UK telecommunications group of which Brown was chief executive before joining EDS.

Todd's experience includes a spell as the head of human resources for United Telecommunications, the predecessor to Sprint Communications.

He was also chief executive officer of United Telephone of Florida, which was then the fifth largest utility in the US.

Brown said that achieving results took a combination of human resources and of operational and leadership experience focused on effective change management.

"Troy's contribution to EDS will ensure our ability to strengthen the performance-based culture that rewards people for value-added innovation and outstanding customer service," he said.

Andrew Edgecliffe-Johnson, New York

Yoshisue to ING Barings

ING Barings has appointed **Rikuichi Yoshisue**, a former corporate executive officer at the failed Long-Term Credit Bank, to head its operations in Japan. He will replace **Randolph Koppa**, who is leaving for Budapest to take over as general manager at ING Commercial Banking.

Yoshisue, 54, spent 30 years in the Japanese financial services industry with LTCB, which is now under government control.

After joining LTCB in 1969, he obtained an MBA at the MIT Sloan School of Management. He spent 11 years at the bank's New York branch, as deputy general manager from 1982 to 1988 and as joint general manager from 1990 to 1993.

He will head 1,000 staff and be responsible for all of ING Barings' operations in Japan.

Nobuko Juji, Tokyo

Reorganisation at Saga

Saga Petroleum, Norway's third largest oil company, has abolished 14 of its 28 directorships under a sweeping restructuring programme to improve its profits amid low oil prices.

The company has halved the number of its units from 28 to 14 and reorganised into four business areas, with only 10 of the previous directors surviving the reorganisation.

Torgeir Opdahl, one of four new directors, will leave his job as head of Saga's Libya operations to lead the new business area, international. The remaining three areas, Norwegian continental shelf north, Norwegian continental shelf south, and gas and oil will be led by **Gunnar Eide, Oivind Rue**, and **Olav Skalmeraas** respectively.

The changes are aimed at simplifying and improving the efficiency at Saga as part of an overall restructuring in the oil company, which aims to sell up to NKr2bn ($256m) in assets this year and save more than NKr400m in annual savings, partly from losing 430 jobs by July.

Within the new structure, Saga has regrouped into four technical function areas. **Terje Hagevang** will head exploration; **Erik Jenssen**, petroleum technology & drilling; **Thomas Bernt**, engineering; and **John Hvidsten**, production and logistics.

Valeria Sköld, Oslo

Moving places

● The Isle of Man, a UK dependant territory, has lost one of its most respected finance industry regulators to arch rival Jersey. **Helen Hatton**, head of enforcement at the Isle of Man's Financial Supervision Commission since 1993, has been appointed deputy director-general at Jersey's Financial Services Commission.

● **Richard Greco** is joining ICO Global Communications, the hand-held satellite mobile phone group, as chief executive.

Olof Lundberg, who has been combining the roles of chief executive and chairman, remains as executive chairman. Greco is joining ICO from Loral, the US aerospace group, where he is president of Loral Orion.

Steeped in scraps of seriousness

Richard Wentworth's idiosyncratic choice is both fascinating and irritating, writes **William Packer**

Art, once upon a time, was what artists made; but it has increasingly come to be thought of as what artists do. It is not the end result so much as the engagement with idea and material that now validates the work of art.

Richard Wentworth is a sculptor and, at 52, one of the most plausible and elegant apologists, in both theory and practice, for the conceptual pre-occupations of his generation. Now he has curated *Thinking Aloud* for the Arts Council of England, which concludes a short national tour, by way of Cambridge and Manchester, at the Camden Arts Centre.

There can hardly be any art student who, after his own fashion, has *not* been drawn to the same material

It is a dense exhibition, personal and idiosyncratic in its choice and fascinating, enjoyable and irritating by turns – which no doubt is just as it should be. He has included nothing of his own work, evidently taking the exercise itself, of research, selection and presentation, as creative endeavour and commitment enough. And in a sense it is. "Various threads run through the exhibition", he tells us, "questions of size and scale, of how we give meaning to things, how we share value, how thoughts become ideas become reality ... *Thinking Aloud* is an opportunity to see what happens if you fray the edges and actually provoke more open-ended ways of looking: something that cannot be tested on paper or CAD mock-up, but can only be given form and experienced in the space itself. Like art, it doesn't exist until it has an audience, until it is populated, tried and tested."

There we have it all: the engagement with issues and ideas, the quasi-scientific, sociological, investigative approach, the technological enthusiasms, the inter-disciplinary scope, the final sweeping assumptions. No mention there of Truth and Beauty. It is the authentic voice of the earnest, *bien-pensant* conceptualist, steeped to the gills, as Bertram Wooster once said of the lovely Florence Craye, in serious purpose.

On the walls and in the cases of the gallery are diagrams and maps, scraps and trophies, working drawings and documentary photographs interspersed with works of art by artists he admires and considers apropos – a sniper's camouflaged gloves from 1917; and a skateboard decoratively camouflaged; Paxton's first rough ideas for the Great Exhibition of 1851; a pile of Gary Hume's drawings on acetate, for projection onto canvas; Frank Gehry's first scribble, and his roller-coaster cardboard model, for an American university; Brassai's rolled and folded bus ticket; a bird's nest; a map of the shipping-forecast areas; Lutyens' first ideas for the Cenotaph; a Lloyd-George doodle; Beck's schematic sketch for his map of the London Underground; a briefing map for the 1944 invasion; a tyre mould; a condom mould; a mouse trap; a mole trap.

And there too are the complementary works of art – an early Patrick Caulfield of an abstract sculpture in a landscape; two bronze door-handles by Rachel Whiteread; Charles Pears's painting of a dazzle-painted merchant-ship of 1918; a Barry Flanagan elephant; some Antony Gormley fishes; postcard works by Gilbert & George; and so on and on. The cross-references are endless, and bear endless re-arrangement.

It is material that for the most part is irresistible – the stuff, in principle, of every miscellaneous collection and cabinet of curiosities there ever was, which is precisely why it is so irritating. For there is nothing worse than to be told, or shown, and with such ingratiating keenness, what we already know. There can hardly be anyone who was ever at art school, who, after his own fashion, has not been drawn to the same material, picked up the same tins and boxes, drawn up the same lists, smiled at the same visual puns, made the same connections. But these are our private games, our secrets he is giving away. Who, after all, does not swear a silent oath when a favourite Paris café, or quiet Venetian bar, is broadcast by the thoughtless traveller?

But, aha, you say: not everyone was at art school, so why should Wentworth not include the rest of us in the fun? Well, no reason at all, if fun it is. He disclaims any didactic purpose, appealing only to the viewer's curiosity. "This is not about claiming territory or owning ideas." But hang on a minute: the inevitable inference is that all can indeed share in the experience of such creative speculation, and all thus be artists in this way, in the collecting and the foraging, the list-making and the re-ordering.

Richard Wentworth, so Nick Groom tells us in the catalogue, "does not approach objects straightforwardly; he unlocks the relationship of body and material, unpacks physical metaphors with oblique strategies. He collects shopping lists – but only when he finds them ... 'as part of the moment'." Like his hero, Robinson Crusoe, he is in essence a sorter and sifter, "and sorting and sifting is above all the activity of the individual artist."

So now you know: that's all there is to it.

Thinking Aloud – curated by Richard Wentworth: Camden Art Centre, Arkwright Road, London NW3, until May 30: a National Touring Exhibition organised by the Hayward Gallery for the Arts Council of England.

'Climbing Round My Room': scene from Lucy Gunning's 1993 video

Sweet reason in the madhouse

THEATRE

DAVID MURRAY

The Colonel Bird
Gate Theatre, London W1

Hristo Boytchev's gentle comedy is Balkan as could be (he is Bulgarian), and therefore perhaps forbiddingly timely. But worries about that can be laid to rest: *The Colonel Bird* comments only obliquely, not bleakly, on visceral Balkan instincts. Besides, Rupert Goold's production is notably deft, and in the end altogether disarming.

We are in (I think) a Serbian mental asylum, in a disused monastery on a remote hill. A new doctor (Jonathan Aris) has just arrived. He serves as our narrator too, though it takes him a while to admit that his medical qualifications are faked: he needed to feed his heroin habit, and as a "doctor" could do that for free. Sadly the asylum stocks only morphine, and indeed very little of anything *anybody* needs – food, clothes, fuel. Since the authorities have all but forgotten about the place, the inmates have learned to shift resourcefully for themselves.

Each inmate has his own delusion or obsession – or "hers", in the case of the female customs officer (Caroline Faber) who devoutly repents having sold her body to thousands of lorry-drivers – and won't sell it again to the "corporal" (John Marquez), whose obsession about his "impotence" is only frustration.

Titch (Danny Babington) is fearful of being trodden on, believing that he shrinks every night to a minuscule size. The "thief" (Nicholas Sidi) is an expansive wheeler-dealer who can get anything for anybody. The "actor" (young Tobias Menzies, whose long, intelligently expressive face promises a future as an *actual actor*) has a Shakespearean monologue ready to declaim at every juncture – in this translation, at any rate.

Judith Spostranova's version is fluent and natural, in such *English* English that everybody plays up to familiar comic-English stereotypes, loopy in the sweetly reasonable style of Ealing comedy. Boytchev's Act I is devoted to exhibiting his characters, with no plot yet in view; but one can imagine what ripe Balkan character-actors could get up to here. The original text may well be written for wildly characterful performances on quite another scale.

Act 2, however, takes wing with gratifying bravura. The "colonel" (Damien Myerscough) has a plan: the inmates must constitute themselves as a UN regiment, and repair swiftly to Strasbourg! They will achieve this by addressing innumerable messages to the UN on the legs of the migratory birds who visit their hill; surely somebody will pick at least one up ...?

From there on, when by a happy accident a parcel of UN uniforms drops from the air, Goold choreographs the comedy with exhilarating precision – miming collective bird-catching, visa-less border crossings and all. Adam Cork's Prokofiev-ish scene-music is a vital asset, reinforcing each moment of the action exactly while retaining its own astringent character. Tim Shortall's set, built around a collapsing cross, is no less apt. This is the kind of thing that the Gate excels at, and for which we constantly, gratefully rely upon it.

Production supported by the British Council in Sofia, and the Bulgarian Embassy.

Alastair Muir

UN delusions: scene from Boytchev's gentle comedy

MUSIC IN LONDON

A modern classic and the class of 99

The younger the music, the younger the audience: it was new music weekend on the South Bank and the barometer measuring the average age there plummeted to a new low. So much for the theory that classical music has become a pensioners' privilege.

While the Queen Elizabeth Hall opened its doors for 48 hours to the UK's 20-something generation of composers, the Royal Festival Hall kept Saturday evening for the only opera to be featured in Endless Parade, the BBC's festival of classics of British music since 1945: *Death in Venice*, Britten's last.

It was an odd choice. Why pick a work that is neither central to the development of music in the UK nor everybody's first choice as an obvious classic? Indeed, some critics have openly given the opera the thumbs-down, but to me that seems unfair: it may not be a sure-fire success in the theatre like *Peter Grimes*, but the music of *Death in Venice* ranks as a more mature piece of composition in almost every way.

As in many of the best operas, the score transports the listener to a different world: the lapping waters in the strings, the seaside sun of the woodwind, the hazy shimmer of the percussion could only be Britten's Venice. Nothing disturbs the atmosphere and the illusion was recreated even in a concert performance which lacked a lot of bite by the BBC Philharmonic under Yan Pascal Tortelier.

The best place to see *Death in Venice* is in the mind's eye, so radio listeners will get the best of it if they tune in to the Radio 3 broadcast on May 7. Watching it in the RFH, one started to appreciate how much of the opera demands some visual reference-points, especially the episodes of dance.

The nation's state is wildly variable in style and quality, but certainly not short of ideas

Still, the three principal singers gave inner life to the drama. Despite feeling his way as though he was recalling the role from the dim distant past, Anthony Rolfe Johnson imprinted Gustav von Aschenbach's vocal lines with memorable individuality. Alan Opie did not delve deep into the subtext of the baritone's seven roles, but he did sing them very well indeed; and Michael Chance's counter-tenor rang out strongly as Apollo from an upper-tier box.

Now that both Britten and Tippett are dead, there is not an obvious role-model for budding young composers to follow. But perhaps we should regard that as a good thing: if a single composer's voice was dominant, the class of 99 might not have turned out such a diverse bunch.

This is the third year that the London Sinfonietta has put on a State of the Nation weekend. Twenty composers had scores selected out of the hundreds put forward, and there is clearly a network to tap into, as the lucky ones were already known quantities at their music colleges or universities.

To judge from the Saturday afternoon sessions, the nation's state is wildly variable in style and quality, but certainly not short of ideas. Among the more adept practitioners were Morgan Hayes, exploring related layers of meaning in *Slippage*, and Robert Broadley, trying his hand at a modern-day concerto grosso in *Concertante*.

The concluding concert, played by the London Sinfonietta under Martyn Brabbins, brought the pick of this year's bunch. Paul Newland's dreamy *readymade II* experimented with spatial effects and Rebecca Saunders's ungrateful *cinnabar* with the possibilities of individual instruments. Speaking a more conventional language, Lloyd Moore showed how to construct a sure-fire integrated piece in *Divine Radiance*.

But it was left to Richard Baker to display experiment and achievement in harness. His *Learning to Fly*, for solo clarinet and small orchestra, bubbled with enough well-argued ideas to suggest that both the work and its composer have staying power.

Richard Fairman

State of the Nation sponsored by the Performing Rights Society

INTERNATIONAL Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Leipzig Ballet: triple bill of works by Uwe Scholz; Apr 15, 17, 18

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Otello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Grüber, with a cast led by Vladimir Bogachov; Apr 13, 16, 19

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Tokyo Ballet: in the German premiere of Maurice Béjart's staging of The Nutcracker; Apr 14, 15, 16, 17, 18

CHICAGO

CONCERT
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Kathleen Battle: recital by the soprano of a programme including works by Handel, Mozart and Strauss, with pianist Martin Katz; Apr 18

GENEVA

DANCE
Bâtiment des Forces Motrices
Tel: 41-22-418 3000
Ballet du Grand Théâtre de Genève: La Bayadère. New staging by Etienne Frey, with designs by Gérald Poussin. With the Orchestre de la Suisse Romande conducted by Thomas Rösner; Apr 13, 15, 16, 17, 18, 19

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Charles Ives, Carl Ruggles and Bruckner; Apr 15
● London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Haydn, Bartók and Sibelius, with viola soloist Yuri Bashmet; Apr 18

Royal Festival Hall
Tel: 44-171-960 4242
● Academy of St. Martin in the Fields: Sir Neville Marriner celebrates his 75th birthday with a programme including works by Mozart, Britten, and Mendelssohn; Apr 14
● London Philharmonic Orchestra: conducted by Leon Botstein in works by Wagner, Khachaturian, and Dvořák; Apr 16
● Orchestra of the Age of Enlightenment: conducted by Paul Daniel in works by Mozart, with soloists including soprano Susan Chilcott; Apr 19
● Philharmonia Orchestra: conducted by Christian Thielemann in works by Brahms and Schumann, with piano soloist Andreas Haefliger; Apr 17

EXHIBITION
Royal Academy of Arts
Tel: 44-171-300 8000
Vasily Kandinsky: Watercolours and other Works on Paper. 140 works on paper spanning the artist's entire career; from Apr 14 to Jul 4

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Apr 15, 17
● Salome: by R. Strauss. Conducted by David Atherton in David Leveaux's production, with Vivian Tierney in the title role; Apr 16

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic: Emmanuel Krivine conducts works by Richard Strauss, with piano soloist Martha Argerich; Apr 15, 16, 17, 18

EXHIBITION
J. Paul Getty Museum
Brassaï: The Eye of Paris. Retrospective comprising 140 works, which coincides with the 100th anniversary of the photographer's birth. Dubbed 'the eye of Paris' by Henry Miller, Brassaï celebrated the city in photographic series including 'Paris by Night'. Originated in Houston, the show will transfer to Washington; from Apr 13 to Jul 4

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Maxim Vengerov: recital by the violinist of works by Brahms, Prokofiev, Chausson and Ravel, with pianist Leon McCawley; Apr 15
● Munich Philharmonic Orchestra: conducted by Yakov Kreizberg in works by Schubert, Mozart and Shostakovich. With piano soloist Mitsuko Uchida; Apr 13, 14
● Vienna Philharmonic Orchestra: conducted by Roger Norrington in works by Nicolai, Bellini and Bruckner, with piano soloist Friedrich Höricke; Apr 19

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Susannah: by Floyd. James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Apr 13, 16
● The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo, Galina Gorchakova and Olga Borodina; Apr 15
● Wozzeck: by Berg. Conducted by James Levine, with a cast including Hildegard Behrens and Franz Grundheber in the title role; Apr 17

New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
● Intermezzo: by R. Strauss. New staging by Leon Major, with sets by Andrew Jackness and costumes by Martha Mann. Conducted by George Manahan; Apr 13, 16, 18
● Madama Butterfly: by Puccini. Conducted by Guido Johannes Rumstadt in a staging by Mark Lamos first seen in November, with sets by Michael Yeargan and costumes by Constance Hoffman; Apr 15, 17

PARIS

DANCE
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Le Parc: staging by Angelin Preljocaj, with sets by Thierry Leproust, costumes by Hervé Pierre, and lighting by Jacques Chatelet; Apr 13

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
● Lohengrin: by Wagner. Conducted by Mark Elder in a staging by Robert Carsen, with designs by Paul Steinberg; Apr 19
● Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella in a staging by Andrei Serban and Robert Carsen, with designs by William Dudley; Apr 14, 17

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Weegee: New York in the 1930s, as seen by the night life photographer; to Jun 20

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
Mito Chamber Orchestra: conducted by Tsuyoshi Tsutsumi in works by Schönberg, Haydn and Shostakovich; Apr 18

TORONTO

OPERA
Canadian Opera Company, Hummingbird Centre
Tel: 1-416-363 6671
www.coc.ca
The Golden Ass: by Randolph Peters. World premiere. With a libretto by Robertson Davies. The director is Colin Graham and the conductor is Richard Bradshaw; Apr 13, 15, 17

VIENNA

CONCERT
Musikverein
Tel: 43-1-5058 6810
Vienna Radio Symphony Orchestra: conducted by Gerd Albrecht in works by Victor Ullmann and Erwin Schulhoff; Apr 16

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PETER MARTIN

Cyber-passions

BSkyB's interest in soccer has shown how one can exploit the public's obsessions. This is yet to happen on the internet

Passion is everything. This is a principle that the young Rupert Murdoch seized in his early ventures in newspapers: it has served him well ever since. But it is something today's nascent media are in danger of forgetting.

The importance of passion is underlined by the report by the UK Monopolies and Mergers Commission into one of Mr Murdoch's bolder, if unsuccessful ventures – the proposed acquisition by his satellite business BSkyB of Manchester United Football Club.

The remarkable success of BSkyB's satellite television broadcasts in attracting viewers is spelt out in the report – and so is the role played in that success by sports programming in general and football in particular.

For example, 40 per cent of people who subscribe to satellite or cable television in the UK say that sport is one of the main reasons for doing so. The other significant reason – watching films – is cited by only 23 per cent. Some 47 per cent of those people who watch BSkyB's sports channels say football is their favourite sport.

The next highest-ranked sport, cricket, is the favourite of only 7 per cent. In a typical week last December, six of the eight most-watched satellite programmes were BSkyB football programmes.

Even though sports fanatics are in a minority in Britain, they are passionate about the subject and are prepared to pay for live top-class matches. Acquiring such customers is relatively quick and efficient, since as soon as they know about the opportunity, they are eager to take it.

This gives the medium early success, helping to create critical mass. Word of mouth of the other goodies on the system spreads, pulling in people who have less enthusiasm. Eventually, only those who genuinely have no interest in any of the offerings – or cannot afford to subscribe – remain unconverted.

Once critical mass has been built, prices can progressively be raised and new products launched. Again, the BSkyB example is instructive. The cost of subscribing to two BSkyB sports channels (one paid for, one a bonus), over and above the fee for subscribing to basic access, was £5.99 a month in 1992. By 1998 it was £20.99, according to the Monopolies Commission.

Once such a competitive lead is established, rival offerings which do not get off to such a rapid start suffer from a self-reinforcing disadvantage: they lag behind in volume, and are unable to achieve the pricing that the market leader attains.

The point here is that, for a communications business, a subject which a minority cares about passionately is a more powerful motor than something that everyone is mildly interested in.

It is hard to imagine anyone paying £20.99 a month for a weather channel – or an all-news channel, for that matter – even though they might be perfectly happy to glance at such a channel if it is provided free.

You might think this is all rather obvious. And indeed it is: people will always pay more for things they are strongly interested in.

But the curious thing is that much of publishing on the internet appears to ignore this principle.

True, there are successful sports sites. True – and more noticeably – there are successful sites for that other passionate minority, those who have a deep interest in sex. (The world wide web is here maintaining the tradition by which the sexual market rapidly adopts all sorts of new technologies, from the photograph to the video recorder).

But much internet activity has been devoted to creating portals, search engines and general sites aimed at relatively broad categories of users. Passions have been left to quirky individuals to exploit (for example, the authors of *www.toolsource.com*, "the best place to shop, swap and talk tools".)

Presumably the emphasis, among the high-flying internet stocks, on a relatively bland all-things-to-all-men approach relies on the assumption that the internet is becoming a mass phenomenon, not a collection of special interests. In such circumstances, the most money is assumed to be made by channeling the mild interests of the many, as opposed to the passions of the few.

That may be right. After all, there are relatively few passions that have broad enough appeal to achieve the BSkyB effect. But is the search for universal appeal really in the long-term commercial interest of internet businesses?

No doubt a few bland, efficient portals, like Yahoo!, will achieve wide usage and the familiarity of an old friend. But the outlook for those which do not achieve mass acceptance quickly is bleak. Indeed, it is almost certainly too late for other entrants to compete with the market leaders in this area.

It is not, however, too late for new entrants to exploit the passionate enthusiasm of minorities. Sport, romance, money, religion, gambling, the environment – these opportunities have not yet been fully grasped on the internet. Indeed, the only passion fully exploited on web has been that for technology itself, which is more than adequately catered for.

Real-world passions remain largely untapped. The web awaits its Rupert Murdoch.

peter.martin@ft.com

LETTERS TO THE EDITOR

Import duty rise will put us out of the US picture

From Mr John Barnard.

Sir, How I wish your report, "Ikea will never be listed" (March 23) of the retaliatory increases in import duties of up to 200 per cent, was correct. Try 550,000 per cent.

As a small publisher of lithographic prints, urged by government to export, we set up a subsidiary in the US. During the intervening 14 years we have built up our export sales in the US to represent 50 per cent of our total volume. The new sanctions will close down our exporting company if they are allowed to go through.

Are you aware that the US has not simply increased duty rates on selected goods to 100 per cent, but they have also changed the method of calculation.

Duty payable on lithographic prints imported into the US from the EU has been levied (under Tariff #49119120) at 6.60 US cents per kilo. Under the new sanctions, duty is calculated at 100 per cent of import value.

As a consequence a typical export shipment of 500 limited edition prints having an import invoice value of $75 each, (that's a retail selling price of $295) now attracts import duty of $37,500 as opposed to $6.60. That is an increase in excess of 550,000 per cent.

It doesn't take a rocket scientist to calculate how long it will take for British publishers of lithographs to lose their entire export trade to the US.

John Barnard,
director,
Universal Publishing,
Universal House,
Queens Parade Place,
Bath BA1 2NN

Direct effects of the banana dispute

From Mr Simon Leonard.

Sir, The assertion that the EU's import regime has fostered an unhealthy dependency on bananas and prevented Caribbean producers from diversifying is blithe; the suggestion that it should be scrapped is both blithe and complacent.

The banana dispute should not be represented as simply a test case for deciding between the vying interests of large trading powers.

It has a direct effect on the livelihoods and prospects of entire communities.

The EU's banana import regime has provided a relatively secure income in a region where climate and geography offer few obvious alternatives. Scrapping the regime would not aid diversification but rather remove the source of economic security that makes it possible.

The Windward Islands of the Caribbean rely on bananas for 60 per cent of their export earnings and almost 40 per cent of their adult employment.

Without the regime there is little to sustain the social infrastructure and less chance of economic development, in a sub-region where 30 per cent of the population lives below the poverty line. An obvious choice for alternative income will be the drugs trade.

The dispute challenges decisionmakers in the WTO to set trade disputes within the context of developing countries' social and economic needs.

They must demonstrate an approach to sustainable development that gauges success in human rather than market terms.

If the WTO proves incapable of rising to this challenge it will not only have failed the people of the Windward Islands, but also sent a warning sign to all developing countries.

Simon Leonard,
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Belgium

Demographic pull on pensions

From Prof Richard Dale and Mr John Trueman.

Sir, From our different perspectives working in academia and the City of London, it seems to us that demographics are playing a crucial role in the remorseless rise in European and North American stock markets to unprecedented valuation levels.

This phenomenon is, surely, the market's response to population ageing, longer retirement and the growth of funded pensions. Specifically, the markets are being driven up to the point where investment yields and prospective total returns are progressively lowered, thereby reducing future pension pay-outs and increasing the opportunity cost of retirement.

The impact on pensioners is further compounded by the parallel fall in (real) annuity yields, this being the other leg of the market adjustment to pensioners' increasing claims on national output.

Put another way, as the demand for retirement (measured in pension years) increases, so the price of retirement (ie the cost of purchasing a year's retirement income) also rises.

Richard Dale,
professor of international banking,
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John Trueman,
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London
EC3P 3DL

Car rental route could ease congestion

From Mr Andrew J. Jardine.

Sir, No doubt there is a demand for a UK motorail service with ever rising fuel costs and congestion problems ("Road congestion sees Motorail on a journey back to the future", March 30) but it strikes me as an absurdity.

If you simply transfer cars from the road to the railways in any volume the rail network will soon clog up and make service performance even worse.

What is really needed is a more flexible and economical car rental service so people do not feel the need to take their cars with them on holiday or on business trips. There should be car hire offices at all major transport nodes, open 24 hours and with rates charged by the hour. Surely the rental companies with large fleet discounts and high utilisation can offer terms cheaper than direct ownership, even ignoring the cost of motorail.

John Prescott would be far better employed finding ways to improve the car rental service than he is endorsing a transport nonsense which would further hinder the rail operators.

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Desktop dinosaurs?

Are personal computers heading for extinction? **Louise Kehoe** and **Paul Taylor** analyse the shock waves created by Compaq's profit warning

When Compaq Computer, the world's biggest personal computer manufacturer, warns that its first-quarter earnings will be less than half of what Wall Street had expected, investors take notice.

Many fear that the unexpected announcement could indicate a fundamental shift in the PC market as well as crisis for the Houston-based market leader.

The key question for investors is whether the problems are limited to one company, or are shared by the entire PC industry and its component suppliers.

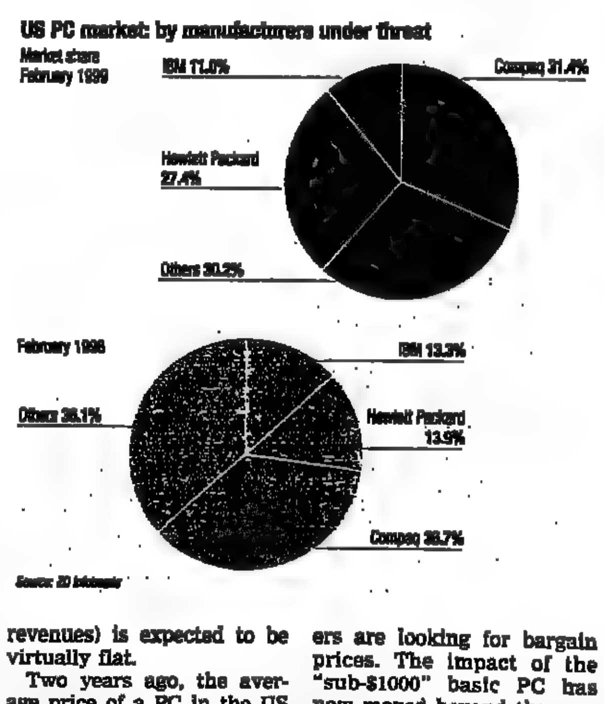
Some information technology analysts believe the industry is in the middle of a "tectonic shift", in which traditional PCs will first be replaced by cheap version, and then by new gadgets such as smart phones, WebTVs and WebPads.

This shift has been developing for some time. Three years ago Larry Ellison, chief executive of Oracle, the second-largest software company, predicted that PCs would be replaced by so called "thin client" devices – machines which, Mr Ellison argued, would rely upon network connections and powerful host machines for much of their computing power and hence would be cheaper and easier to use.

In fact, PCs manufacturers have fought off this threat, for the moment at least, by cutting prices and by embracing the use of internet technologies – particularly web browser software. The result has been that, at least to some extent, PCs themselves have become "thin clients".

But the cost has been large: a vertiginous drop in prices which, for the immediate future, is the principal challenge for traditional PC makers.

Although sales of personal computers are expected to grow by about 14.3 per cent this year to 103m units, according to International Data Corporation, average prices are plunging. IDC expects the total value of worldwide PC sales to grow by just 4.3 per cent this year. In the US, where competition is the most severe, market growth (measured by revenues) is expected to be virtually flat.



Two years ago, the average price of a PC in the US was $2,100. Today it has dropped to $1,200, and PCs selling for as little as $300 have begun to appear in retail stores. The fall in prices has squeezed the profit margins of all but the leanest of PC makers, and has hit big "traditional" manufacturers such as Compaq and Hewlett Packard more than upstart newcomers such as Dell Computer and Gateway which use direct sales as the main vehicle for distribution.

Compaq itself, which is now expected to announce first-quarter sales of around $9.4bn and earnings of just 15 US cents per share compared with Wall Street expectations of 31 cents, blamed lower earnings on PC price wars and unexpectedly low demand for business machines.

The statements suggest a fundamental shift in PC purchasing patterns. Rather than looking for the latest, fastest models, business buyers are looking for bargain prices. The impact of the "sub-$1000" basic PC has now moved beyond the consumer sector, where it has been evident for the past six months, into the business sector where it is now dragging down average selling prices and squeezing profit margins.

Mainstream business buyers are beginning to demand the same sort of prices that consumers pay for PCs. This is creating a huge challenge for PC manufacturers who, until now, could balance the low-margin consumer business with higher profits from business PCs.

'Fifty-eight per cent of Dell's sales are in the $2,500-$3,000 segment. Soon 90 per cent of the market will be below $1,500. If Dell does not move now its strategy will fall through the cracks'

Compaq is hardly alone in struggling to come to terms with the new economics of the PC market. International Business Machines revealed last month that its personal systems group responsible for PC sales lost nearly $1bn last year, much more than its $161m loss in 1997.

Partly in response, IBM has announced a series of measures to beef up its online business including a scheme called Project Odessey which is aimed at making it easier for small businesses to buy IBM PCs via the internet.

Yet Dell Computer, Compaq's arch rival also based in Texas, continues to report higher profits and growing market share. The direct sales model and surging internet sales enable it to compete most efficiently in the new environment. Even so, some analysts believe Dell could face tougher times ahead.

"The problem is that 58 per cent of Dell's sales are in the $2,500-$3,000 segment, but this is only about 1 per cent of the overall market," said Ashok Kumar, an analyst with Piper Jaffray. "Soon 90 per cent of the market will be below $1,500 – if Dell doesn't move now their strategy will fall through the cracks."

Meanwhile, in the internet age, the PC itself potentially faces growing competition from other types of devices including digital set-top boxes, smart telephones and handheld digital assistants.

The first generation of these devices has just begun to appear on shop shelves and are generally expected to be cheaper and simpler to use than standard PCs.

For example, in Britain digital television subscribers are to be offered access to a wide range of interactive services including home shopping and internet communications using set-top boxes which will soon be built into standard television sets.

Similarly, the next generation of digital mobile telephones will include technology that will enable users to send and receive web pages, view electronic mail and conduct online banking as well as make ordinary voice calls. Many of these devices will used the same technology standards and familiar software such as internet web browsers that has enabled the internet to grow so quickly.

Predicting the performance of fast-moving technology markets has never been easy. Indeed, the history of the PC industry is littered with the corpses of companies that placed the wrong bets. Today's giants cannot afford to put one foot wrong if they are to survive.

COMMENT & ANALYSIS

FINANCIAL TIMES
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Tuesday April 13 1999

A bigger European bang

Before the conflict in Yugoslavia began, European governments had been working towards closer co-operation on defence.

Nato's campaign of air strikes has revealed the need to accelerate that process. As the campaign reached its 20th day yesterday, Nato foreign ministers agreed to continue bombing. The longer the conflict draws on, the more the US makes the running. What stops Europe from making a greater contribution? Not, it seems, money.

The defence budgets of Nato's European members totalled about 63 per cent of the Pentagon's in 1997, an increase from 58 per cent in 1985, according to the International Institute for Strategic Studies. Based on their spending, European members should be able to field 38 per cent by value of the military assets in a Nato operation. In fact, the share should be larger in Yugoslavia given that the operation is in Europe and that the US has other important commitments, especially in South Korea and the Gulf.

The US is dominating the campaign thanks to the variety and depth of its military might. It has deployed a wide range of aircraft, a 100,000 tonne aircraft carrier with its battle group and other ships, and has thousands of troops available in Europe. The European contribution is significant, but the US has many high-technology assets: cruise missiles, the JSTARS battlefield surveillance system, Apache attack helicopters, F-117 stealth fighters, B-2 stealth bombers, spy planes, unmanned aerial vehicles and smart bombs.

Europe has lagged for several reasons. Each government's defence spending has been driven largely by domestic considerations. Research spending has been duplicated, and there is not nearly enough of it to produce new generations of weapons to balance the American armoury: in 1998, Nato's European members spent $10bn of their defence budgets on research and development compared with $36bn in the US. Unviable national industries have been propped up. Efforts to modernise armed forces for rapid deployments such as to Kosovo have been insufficient.

Europeans are addressing the problems: they are attempting to pool procurement and research and to remove barriers to industrial consolidation. But the difficulties of collaboration in transport aircraft, frigates and armoured personnel carriers show how difficult it is for them to agree even on what they need. Europe's leaders should take advantage of the united front presented so far on Yugoslavia to push the initiative begun last year by Tony Blair, the UK prime minister. The emerging consensus on a new European capability within Nato is a sensible one, but needs much harder and faster talking on how to give taxpayers a better bang for their euro.

Euro moves

Europe's new single currency may have made an inauspicious start on the foreign exchanges, but its impact on the structure of Europe's capital markets has been dramatic. Not only has the bond market seen a remarkable surge in new euro-denominated issues since January 1. The sudden increase in takeover and merger activity, most notably in banking and telecoms, appears to cement the move towards an Anglo-American-style market in corporate control.

If this facilitates corporate restructuring it will be welcome. Certainly the ability to raise debt finance in a more liquid market will be a boon for the European corporate sector. And takeovers provide a potent means of reducing capacity in mature industries such as banking.

Yet the restructuring process is not a matter for the capital markets alone. The biggest obstacles to efficiency and growth in continental Europe lie in the labour markets. There are limits to what takeover activity can achieve where wages are inflexible and employees cannot be fired.

In banking, in particular, there is a risk that consolidation will intensify competitive pressures arising from the single currency without reducing capacity. That would be a recipe for lower profitability and greater risk-taking.

As the Olivetti bid for the much larger Telecom Italia underlines, the existence of more liquid markets in Europe could permit the development of an opportunistic deal-making culture similar to the one that prevailed in the US and UK in the late 1980s. But that is not necessarily a guarantee of industrial logic; nor of deals that are in shareholders' as opposed to managers' interests.

Investment bankers are adept at concocting leveraged deals that satisfy management's desire for an exciting life. Yet competitive advantage derives not from bids but from sound management of the underlying operating businesses. Management may also have powerful defensive motives for doing things that conflict with the shareholders' interests. A number of recent takeover proposals appear, for example, to be motivated more by the desire for size than for value.

Whether the aim is to reduce vulnerability to hostile takeovers or to nurture national champions, such bids are unlikely to deliver much economic benefit.

In the new environment it will thus be doubly important for the competition authorities and capital market watchdogs to cast a very sceptical eye. Even then, the risk remains that without more vigorous labour market reform, takeover-induced structural adjustment will cause needlessly high levels of unemployment across Europe.

Chávez's error

A political confrontation is looming in Venezuela. Less than six months after he was swept to power, President Hugo Chávez is threatening to override congressional opposition to economic austerity measures. He has threatened to take special powers under a state of emergency. This would be a serious mistake.

The emergency would further divide Venezuelans at a time when political stability is needed to allow the country to take the first steps to sustainable economic recovery. Voters are already preparing for a referendum this month on far-reaching and controversial constitutional change.

Mr Chávez's reforms include tax increases and job cuts in the public sector that are needed urgently if Venezuela is to tackle its fiscal deficit, expected to reach 9 per cent of economic output this year. The package also gives him powers that would allow negotiations with foreign creditors over the country's pressing burden of external debt.

Given the scale of Venezuela's economic problems, Mr Chávez's frustration at the slow pace of the legislative process is understandable. But his impatience is worrying because it reflects a broader authoritarian tendency within his administration. Only seven years ago, when still a paratroop commander, Mr Chávez led an unsuccessful military coup. This year, rather than using his popular mandate to win broad agreement for change, Mr Chávez is increasingly resorting to populism and strong-arm tactics.

At the weekend the self-styled "president of the revolution" told supporters that he wanted to stay in power for two consecutive terms – even though this is prohibited by the constitution – and promised new laws allowing soldiers to play a more active role in politics. Already senior officers are running government ministries or keeping a close eye on their civilian heads.

Other former Latin American strongmen have learned that respect for democracy reaps dividends. So should Mr Chávez. A deal with congress should be possible. Although the legislature has often been out of touch with Venezuela's problems in the past, this year its leaders have been responsive to the government and are prepared to approve most of the economic measures.

Indeed, the president's own supporters control about one third of seats in the congress. But Mr Chávez seems intent on capitalising on the unpopularity of the legislature. By courting confrontation with Congress, he risks creating further instability, deterring foreign investors and deepening the country's economic problems.

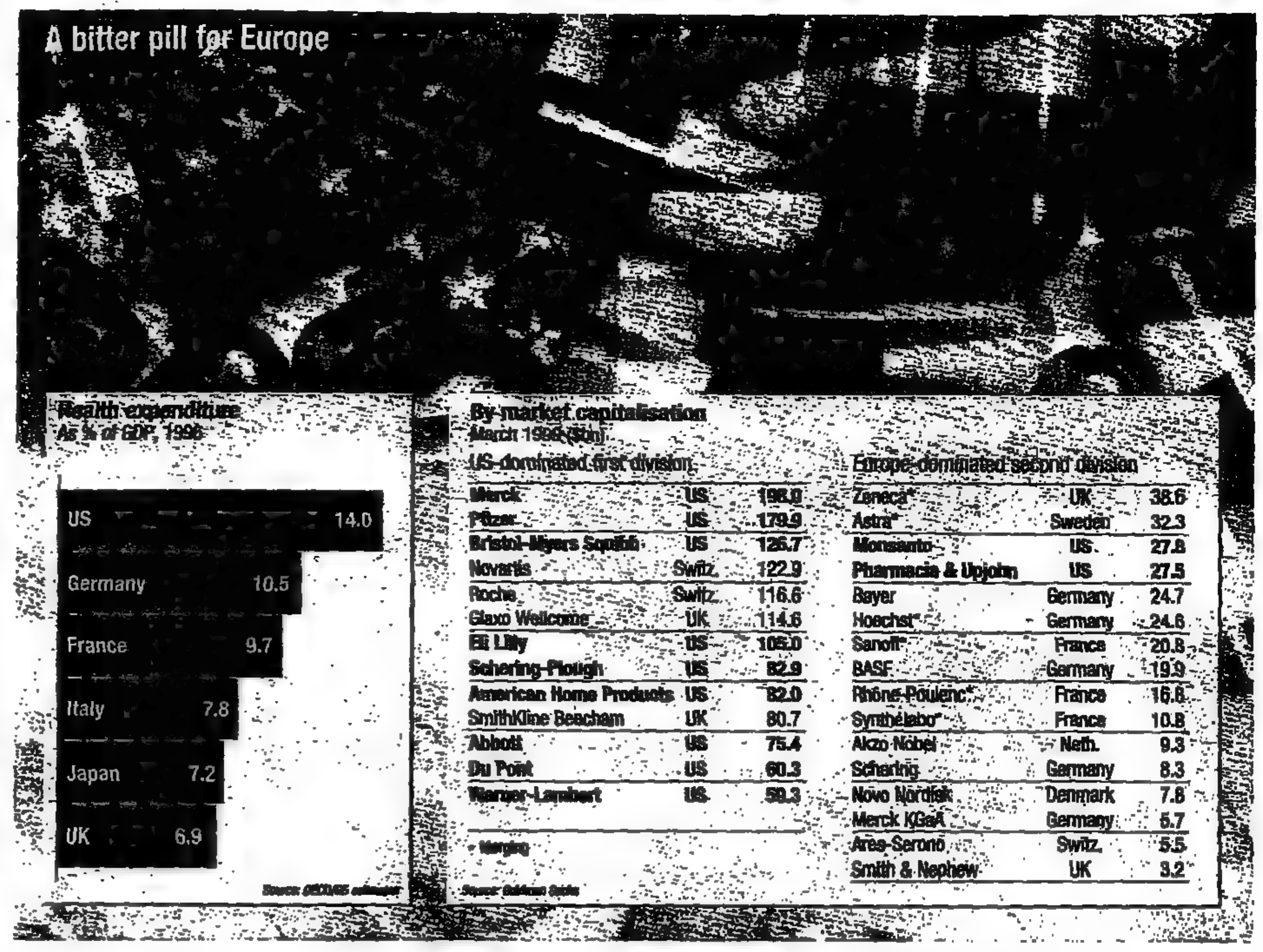
Winning the drugs war

The pharmaceutical business is one of Europe's most successful industries. Nevertheless, says David Pilling, its centre of gravity is shifting relentlessly towards America

Is the US taking over the global pharmaceuticals business? The question seems almost preposterous. After all, drugs form one of Europe's most competitive and successful industries. By almost any measure, Novartis and Roche of Switzerland and Britain's Glaxo Wellcome and SmithKline Beecham are in the industry's top 10 companies. South-east England is one of the world's centres of medical research, which vies with financial services as a job creator in the UK. Indeed, Europe gave birth to the drugs business when, at the turn of the century, German and Swiss dye companies applied their chemical expertise to the discovery of pharmaceuticals.

But, as the century ends, companies that until recently were considered glowing examples of European competitiveness are slipping behind their US competitors. By 2002, according to forecasts, only three of the world's 25 top-selling drugs will be made by Europeans. US companies will account for no fewer than 20. Only a decade ago, half of all top-selling drugs were European.

Although blockbuster drugs (selling more than $1bn a year) are not the only measure of success, the astronomical cost of research means companies cannot get along without them. "It is difficult to see how European companies can remain at the industry's top table and be as profitable as their US peers if they do not produce a decent share of the top-selling products," says Jonathan de Pass, head of Evaluate, a pharmaceuticals research boutique.



By market capitalisation
March 1999 ($bn)

US-dominated first division			Europe-dominated second division		
Merck	US	198.0	Zeneca*	UK	38.6
Pfizer	US	179.9	Astra*	Sweden	32.3
Bristol-Myers Squibb	US	126.7	Monsanto	US	27.8
Novartis	Switz.	122.9	Pharmacia & Upjohn	US	27.5
Roche	Switz.	116.6	Bayer	Germany	24.7
Glaxo Wellcome	UK	114.6	Hoechst*	Germany	24.6
Eli Lilly	US	105.0	Sanofi*	France	20.8
Schering-Plough	US	82.9	BASF	Germany	19.9
American Home Products	US	82.0	Rhône-Poulenc*	France	16.8
SmithKline Beecham	UK	80.7	Synthélabo*	France	10.8
Abbott	US	75.4	Akzo Nobel	Neth.	9.3
Du Pont	US	60.3	Schering	Germany	8.3
Warner-Lambert	US	59.3	Novo Nordisk	Denmark	7.8
			Merck KGaA	Germany	5.7
			Ares-Serono	Switz.	5.5
			Smith & Nephew	UK	3.2

* Merging

Lack of blockbusters is not the only sign of European decline. Six of the top 10 companies by sales, and eight of the top 12 by market capitalisation are American. Former powerhouses, such as Bayer of Germany, are in danger of becoming bit-part players.

European companies are tacitly acknowledging their plight. Over the past few months, three big European mergers have been announced. At least two of them – the all-French union of Sanofi and Synthélabo, and the merger of Hoechst of Germany with Rhône-Poulenc of France – are regarded by US competitors as weak European companies huddling together for comfort.

Zeneca of the UK, which last week consummated its marriage with Astra, is a partial exception. But even though Zeneca has been growing rapidly, many analysts believed it lacked the muscle to go it alone indefinitely.

Mergers, however, may not be enough to dig Europe out of its hole. The combination of Hoechst and Rhône-Poulenc to create Aventis, for example, would – on pro-forma numbers for 1998 – create the world's biggest drugs company by sales. Yet such is the relative weakness of Aventis's pipeline that analysts are forecasting it will slip back to sixth place by 2002.

And if you want to know how far matters can go, consider the strange case of the Mercks. The pharmaceutical world boasts two companies of this name, one a grand old German outfit, the other its younger American offshoot. Since their separation after the first world war, the US child has become the most successful drugs group in the world with a market capitalisation of $200bn (£125bn) and an unparalleled track record of innovation. Its former German parent is now valued at a mere $6bn – about a 30th the size of its US counterpart – and its future as an independent entity is uncertain.

So what lies behind the seemingly precipitous decline of the European drugs industry? And can it be reversed?

The first point to make is that the fault does not appear to lie with European research. The quality of laboratories and scientists in Europe is still considered world class.

Much of the recent success of Pfizer, the rapidly growing US drugs company, was built on a series of discoveries at its research centre in Sandwich, England. Most successful US companies maintain a considerable research presence in Europe.

True, the biotechnology industry, which has shifted the basis for drug discovery from chemistry to biology, had a 15-year headstart in the US. Many US pharmaceuticals companies bought in big-selling drugs from American biotech firms. But then, so did European companies, such as Glaxo and Roche.

If research is not to blame, what is?

Most pharmaceutical executives, keen to open up Europe's heavily regulated health systems, have a ready answer. Because European governments are continually trying to squeeze drug budgets and are slow to approve new (more expensive) treatments, they say, European-based companies are poorly rewarded for their research efforts.

"There's not enough incentive for innovation in Europe," says Sidney Taurel, chairman of Eli Lilly of the US. "We are seeing a lot of consolidation of the industry in Europe as a consequence of this less-than-ideal environment for pharmaceuticals."

That view is partially borne out by the facts. The US drugs market – which accounts for about 40 per cent of the industry's sales and 60 per cent of its profits – has expanded much more rapidly than Europe's over the past decade. Insurers appear more willing to pay for drugs than governments are: sales of prescription products in the US grew at 12 per cent last year against only 6 per cent in Europe.

"If you want innovation, you've got to be prepared to pay for innovation," says Sir Richard Sykes, the chairman of Glaxo. "You cannot say: 'We want to be an entrepreneurial society, we want to compete with the rest of the world, but by the way we're not prepared to pay for your products'."

But the sluggish European market is only a partial explanation of its corporate decline.

True, it may explain the performance of German and French companies, which tend to be entrenched in their local markets. Not only have they been punished by downward pricing pressure in Europe, but they have also missed out on the US bonanza. Sanofi, Synthélabo, Hoechst, Bayer, BASF and Schering are all under-represented in the US. Several American companies, by contrast, do 60 or 70 per cent of their business in their booming domestic market.

True, too, it may explain some of the better performance of Swiss and UK companies. Roche and Novartis of Switzerland have a good proportion of their business in the US. Glaxo Wellcome has more than 40 per cent of its sales there, while AstraZeneca and SmithKline Beecham have nearly 50 per cent (partly because the SmithKline bit of the company is of US origin).

But even these companies do not have as many blockbuster drugs as their US counterparts. So for global companies like them, there must be other reasons for relative decline.

Part of the explanation may be that many European companies are caught at an awkward point in the innovation cycle. UK companies in particular have been hard hit by patent expiries, which slash sales once generic competition begins. By 1998, UK companies had only seven of the world's top 50 selling drugs compared with twice that number in 1988.

But why have European companies not been able to come up with new blockbusters to replace the old ones?

That may be because they have chosen the wrong drugs. Over the past 10 years, "lifestyle drugs" – which improve the quality of life and alleviate the symptoms of old age – have grabbed an increasing proportion of market share. There were 10 such drugs in 1998 against only two a decade earlier.

Prime examples are Viagra for male impotence, Premarin for menopausal symptoms, Prozac for depression and a batch of cholesterol-lowering drugs. The vast majority are made by US, not European, companies.

Why US companies should have predicted the shift to lifestyle drugs more successfully than their European counterparts is unclear. Being closer to the US market – with its wealthy, ageing baby-boomers and its less regulated environment – seems to have given them a better insight into the direction the industry was heading.

Glaxo, in contrast, used the billions it earned through the phenomenal success of Zantac, its anti-ulcer drug, to produce world-class research in such areas as asthma and HIV. Although these efforts have produced important drugs, they have not yielded the lifestyle blockbusters.

In common with other European companies, Glaxo was not as quick to recognise the new phenomenon. When, like Pfizer, it stumbled upon a drug to treat erectile dysfunction, it scrapped the project on the grounds that there was no market. At the moment, that hardly looks like one of the great business decisions of our time.

Because drugs take at least 10 years to develop, the US gamble on lifestyle drugs is likely to give it an edge for some years to come. According to Evaluate, five of the top 10 drugs in 2002 will be lifestyle products. All come from US companies.

In short, for the next three to five years, European companies will struggle, compared with US ones. But does that does not necessarily mean they are doomed to fall further and further behind.

From 2002-2005, it will be the turn of US companies to ride out a series of damaging patent expiries. One of the pitfalls of relying on blockbusters – as opposed to a broader portfolio of more modest-selling drugs – is that, when one product loses its patent, group earnings can plummet overnight. That could give the Europeans a window of opportunity.

At the same time, the growth of the US drugs market may slow, particularly if American politicians make an electoral issue of healthcare spending (which is higher in the US than in any other big country). Conversely, the industry's push to deregulate the European market is likely to pay off eventually, opening the way to greater volume and higher prices.

But Mr de Pass believes it may be dangerous for European companies to wait for the tide to turn. Those Europeans that have contemplated a transatlantic merger of the sort Glaxo is said to have considered with Bristol-Myers Squibb "should perhaps get on with it now, while they can still be viewed as equals", he says. "If US companies keep growing at this rate, they are not going to see even the biggest European companies as partners – but as takeover targets."

OBSERVER

Party favours in the garden state

While other Goldman Sachs executives sweat over the partnership's initial public offering next month, co-chairman Jon Corzine's been distracted by a stream of worried Democrats from across the river in New Jersey.

They're hoping Corzine will make a bid for the US Senate seat being vacated by Sen Frank Lautenberg, a Democrat who made his own fortune in computerised payroll processing. Christine Whitman, Jersey's Republican governor, has said she'll run for the seat. So has Jim Florio, the Democrat Whitman defeated in 1993, when she hammered away at the unpopular tax increases he'd put in place.

Hoping to avoid a Whitman-Florio rematch, party activists have been courting Corzine, who's lived in Summit, New Jersey, for more than 20 years and is no stranger to Democratic politics. He gave nearly $500,000 to party candidates and causes in 1997-98.

Quite apart from his own money – which will include around $200m from the IPO alone – Corzine has plenty of fundraising connections which could help with the expensive race.

And after the nasty politics of Goldman, which brought about his ousting as CEO earlier this year, a little rough and tumble in Washington may seem like child's play.

Pugilistic profs

Run for cover! The fight between Telecom Italia and Olivetti, one of Europe's biggest takeover battles since the war, hasn't got just the bankers and businessmen up in arms.

A pair of professors has joined the fray – and they're busy deploying the sweetness and light for which their trade is renowned.

Not that they're just any two academics. In one corner is Luigi Spaventa, the Cambridge-trained economist and former budget minister who heads Consob, Italy's stock-market watchdog.

Snarling at him from the other side of the ring is Guido Rossi, a Harvard Law School graduate who preceded Spaventa as Consob boss. He also presided over Telecom Italia while it was being privatised and has been enlisted by the company's management.

Rossi ripped into Consob last weekend for treating Olivetti's intention to bid for Telecom Italia as a fully-fledged takeover offer, a step which reduced Telecom Italia's freedom of manoeuvre.

Spaventa hit back yesterday. He said the regulator considers a company subject to a takeover attempt as soon as an intention to bid is announced.

The war of words between the two has brought the country's new takeover code to the centre of attention, helping clarify its provisions at a time when Italian mergers and takeovers seem to have become all the rage. And with the dogged Rossi on the case, the battle is likely to run and run.

Really romantic

Love isn't exactly in the Bonn air this spring – or at least, not enough of it for the liking of some very important persons.

Chancellor Gerhard Schröder cut a slightly disconsolate figure yesterday when he acknowledged that his Social Democrats didn't truly love him. Although he said all he was really after was their respect, that didn't stop him asking for a pair of elbow pads to protect him from jostling in the ranks.

Schröder may be a veteran of a thousand talk shows, but he's never tugged at his party's affections in the way that former finance minister Oskar Lafontaine did before his political self-destruction last month.

And events in Kosovo have stopped the chancellor from building up a warmer, fuzzier image – among the conflict's minor casualties were his plans for a big 55th family birthday party last week.

Nor is he the only one putting international politics ahead of his private life. Joschka Fischer, the Green foreign minister, who's lost some of his party admirers because of his support for air attacks, spent his 51st birthday yesterday at a Nato meeting in Brussels.

But there is still apparently some space left in Mr Fischer's diary. Observer understands he will – despite press reports to the contrary – go ahead this Saturday with his fourth wedding. Romance isn't dead, after all.

Time travel

Tokyo's hip young things may enjoy comparing their city to New York or Paris, but the city's next governor isn't so keen on the latest fashions from abroad.

Shintaro Ishihara, a nationalist who pushed his way to victory past 18 other candidates, has raised plenty of hackles by yearning after the country's pre-war past. He insists on calling China a name once favoured by the Japanese imperial army and isn't shy of claiming that Japanese money has conquered south-east Asia.

He's laid into his compatriots too: he reckons the savants at the finance ministry are blockheads and that Japanese youth has lost the values that once set it apart.

Ishihara's outspoken views won't exactly froth up the young sophisticates' capuccinos. Retro may be chic, but antediluvian isn't so cool.

The Financial Times

100 years ago

Bucket-shop warning
We have warned our readers against the bucket-shop which has taken to itself the pompous name of the British Securities Company, Limited. This ridiculous institution caters for "the intelligent, progressive business man who will gladly profit from the fluctuative tides of Railway, Industrial and Mining shares" and it also tries to peddle out its Twelve Per Cent Ordinary shares, which, either with outstanding audacity or profound ignorance, it describes as absolutely safe.

We never knew one of these pools to be honestly conducted yet, and, frankly, we do not think the British Securities Company is going to startle us with an innovation.

50 years ago

Swan Hunter
New orders coming in to the shipyards are now at their post-war lowest, although some of the builders have order books promising profitable employment for the next year or so. Among them is Swan Hunter and Wigham Richardson. But shortage of steel supplies continues to hamper the yards and may compel a laying-off of men despite full order books.

FINANCIAL TIMES
TUESDAY APRIL 13 1999

THE LEX COLUMN

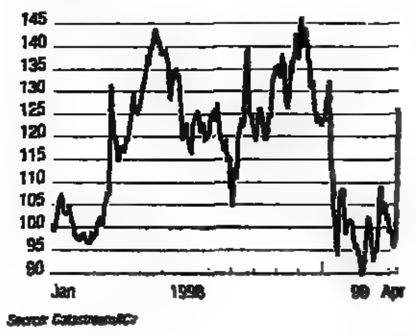
Ford's Mis-Fit

"Adjacency" is not one of those buzz-words that get investors reaching for their cheque books. But it is what Ford's £1bn bid for Kwik-Fit is all about. Jacques Nasser, the carmaker's pugnacious chief executive, wants Ford to profit from every stage of a car's life-cycle – from factory to scrap yard. Hence its recent investments in dealerships in the UK and US. Buying Kwik-Fit, which repairs older ex-warranty cars, is arguably an extention of that strategy.

Seems sensible? Look closer and it seems terribly mushy. One could argue that Ford benefits from investing in dealers that sell its cars. Marketing accounts for a third of a car's total cost. But it is hard to see what it gets from sticking exhaust pipes on rival marques or even its own veteran models. Kwik-Fit will remain a stand-alone business – limiting the potential for revenue or cost synergies. True, it is growing fast in continental Europe. But without synergies, the price, at 22 times 1999 earnings, seems high.

Mr Nasser believes the market intelligence Kwik-Fit will bring with it is worth paying for. This is the adjacency bit. He may be right. Even so, Kwik-Fit does not look like a must-have. It is easier to see why Sir Tom Farmer, Kwik-Fit's 58 year old founder, is selling. As its entrepreneurial driving force, Sir Tom needed to sell before his looming retirement became an issue. The price may not be quite top dollar but he has done his shareholders proud.

Kwik-Fit
Share price relative to the FTSE All-Share Index



Source: Datastream/ICV

European takeover code

An end to the 10-year wrangle over a Europe-wide takeover regime looks in sight. And not before time, given that a spate of hostile bids has exposed the weaknesses of continental systems for all to see. When continental takeovers were all friendly, this debate seemed rather sterile. After all, it is only in hostile situations, when bidders have to appeal to shareholders over the heads of managers, that there is really much need for rules. Convoluted bids like LVMH/Gucci, Olivetti/Telecom Italia and the three-way French banking pile-up are now highlighting the need for agreement on the general principles of how companies should change hands.

Modelled on the UK's Takeover Code, the draft directive is a well-meaning attempt to address investors' gripes: incumbent managements can fend off hostile offers too easily, minority rights are often ignored and some bid battles are poorly policed. It is ironic, then, that the UK, where most takeovers take place and which has a speedy and efficient self-regulating regime, has long been the directive's fiercest opponent. But its fears that replacing a successful voluntary arrangement with law would encourage protracted nuisance litigation should now be diminishing. Germany's proposed compromise will enable countries to limit such practices. The Takeover Panel will still cry blue murder. But the directive's impact on City of London ways no longer looks too disastrous.

Venezuela

While much of Latin America appears to be stabilising, Venezuela is spiralling into crisis. President Hugo Chávez is threatening to declare a state of emergency and rule by decree unless the opposition-led Congress grants him sweeping emergency powers. Mr Chávez, who was once jailed for leading a military coup, has also said he wants to rewrite the constitution to allow him to stay in office for at least 10 years.

The president claims he needs special powers to clean up the country. Venezuela is clearly in a mess. Corruption and inefficiency are chronic and the economy is in a lamentable state. Despite the recent rise in oil prices, output will contract by 1-3 per cent in 1999, inflation is around 30 per cent and the government is running a fiscal deficit of nearly 9 per cent of gross domestic product. So far, however, Mr Chávez has neither detailed his economic reforms nor recruited high-calibre advisers. And his attempt to assume dictatorial powers hardly creates the sort of climate that will attract foreign investment.

Foreign capital is needed. Venezuela's total external debt, at around 30 per cent of GDP, is not as manageable as it looks. Too much is short-term, with around $5bn (or 5 per cent of GDP) falling due this year. So far, the central bank has resolutely defended the bolivar. But as its reserves diminish and capital outflows continue, a devaluation looks likely.

Sweden

The shock resignation of Erik Asbrink, Sweden's finance minister, just two days before he was to present the country's budget is bad news. But the reason is not obvious at first glance. After all, the immediate cause of his resignation was a comment by Göran Persson, the prime minister, that there could be room for tax cuts next year. And Sweden certainly needs lower taxes. The government currently taxes to the tune of 55 per cent of gross domestic product; that stifles enterprise and fuels the brain drain. Moreover, Sweden's finances are not in quite as poor a state as they were in the mid-1990s when the budget deficit was 12 per cent of gross domestic product. The budget is actually in surplus. So surely the prime minister's instincts are right?

Well, not quite. Mr Asbrink was the embodiment of fiscal rigour in a flimsy left-wing coalition. He, too, wanted tax cuts – but not until Sweden had paid down more of its national debt which, at over 70 per cent of GDP, is still too high. His insistence on delaying tax cuts when there was already a surplus may seem excessively rigid. But there is something to be said for having a rigid finance minister. That is especially so in Sweden, which needs not merely of a one-off tax cut but root-and-branch reform of its public finances. A return to fiscal profligacy is probably not on the cards. But structural reform is now likely to be put on the back burner.

China takes harsh action to curb 'unfair' price wars

Manufacturers cutting profits face penalties and even closure

By James Harding in Shanghai

China is imposing drastic penalties to stop fierce price wars between rival domestic manufacturers that have eroded corporate profits and driven deflation.

Beijing announced regulations yesterday to punish Chinese colour television makers that sell their products below cost on the domestic market. This represents a new level of government intervention to curb the price falls in one of the many heavily oversupplied sectors of the market.

The measures, which took effect this month, come amid calls for the government to halt the cut-throat competition that has depressed prices in other sectors. China's retail prices index has been in negative territory since October 1997.

Officials have already intervened to stop discounting in other industries, such as airlines.

The "ban on unfair price competition" in the colour television market is intended to target manufacturers that have sold televisions below cost, thereby "disturbing normal market order and damaging the legal interests of other manufacturers and consumers", an official statement said.

The penalties include fines, suspension of operations and even the closure of businesses found reducing colour television prices below cost by offering discounts or subsidies.

The domestic competition in the colour television market has been particularly fierce. Sichuan Changhong, the Chinese market leader, is generally blamed for starting the price war in 1996.

Prices have been cut again and again since then, driving some manufacturers out of business and reducing the profits of Chinese colour television makers by Rmb5.2bn ($628m) last year, according to a report in last week's Market Daily. Another round of price-cutting began last month, due in part to the arrival of cheaper imports.

Another sector with stiff internal competition is the telecommunications switching industry, whose rapid rise had taken foreign manufacturers by surprise in recent years.

However, prices of some products have been forced down by as much as 70 per cent, cutting into the profits of the leading Chinese companies.

Wu Jiangxing, chairman of Julong, one of the big four telecoms equipment manufacturers, was quoted recently by the state media suggesting that the government should implement certain "policy adjustments" to ensure the four leading producers – which include Huawei, Datang and Zhongxing – do not make the same product and thereby prevent an "internal fight".

Chinese airlines were ordered to stop selling domestic flights at discount prices earlier this year. A government official said the instruction to sell tickets at the prices set by the Civil Aviation Administration of China (CAAC) was intended to "stop airlines' unfair activities of selling tickets at prices below cost".

Chinese exports fall, Page 8

UK and Germany in move to agree on centre-left policies

By John Lloyd

Regular meetings are planned between German and British ministers to discuss policy co-ordination that would define a political framework for the new centre-left in Europe.

Their forthcoming joint report, The Way Forward for Europe's Social Democrats, is a mark of growing closeness for the two governments. It is also a possible sign of growing distance in political philosophy between Germany and France.

The report builds on the so-called "Third Way" concept that Tony Blair, the UK prime minister, Gordon Brown, the chancellor, and their allies have been active in developing in association with US president Bill Clinton.

It emphasises the need for promoting competitiveness in the economy, and to equip people for change through re-training.

The report's aim is not just at the UK and Germany, but says that all centre-left European parties, most of which are the dominant partners in their governments, should adopt similar positions.

So far, Italy's "Olive Tree" coalition headed by Massimo D'Alema has shown the most interest in Third Way ideas. The governing Socialists in France, under Lionel Jospin, have been more sceptical.

The report suggests that the policies of the European Union, now driven by a Council of Ministers almost entirely consisting of centre left politicians, would change to reflect the new philosophy.

It is frank about the previous inability of left-wing parties and governments to cope with rapid change, and makes clear that radical alterations must be made to welfare states. This would be particularly difficult for governments and parties that have committed themselves to building and extending social provision.

The report will be endorsed by both Mr Blair and Gerhard Schröder, the German Chancellor. Much of its philosophy has already been accepted by Mr Blair's colleagues. Mr Schröder's commitment to the Third Way - known in Germany as die neue Mitte (New Middle) - is more controversial, and less preparation has been undertaken.

The project is the result of meetings between Peter Mandelson, the former UK trade and industry secretary, and Bruno Hombach, Mr Schröder's closest aid. The meetings continued after Mr Mandelson's December resignation, and the final draft was produced at the last of them in February.

The report's launch has been delayed by the Kosovo crisis, and has not been seen by most ministries in either Britain or Germany.

Mr Schröder was constrained in moving too far into the political centre while Oskar Lafontaine, an old style socialist, remained finance minister. Mr Lafontaine quit suddenly in January, leaving Mr Schröder a freer hand.

CONTENTS

Hutomo "Tommy" Mandala Putra, youngest son of former Indonesian president Suharto, arrives at court in Jakarta yesterday to face charges of corruption over the lease of government land. Picture: AP

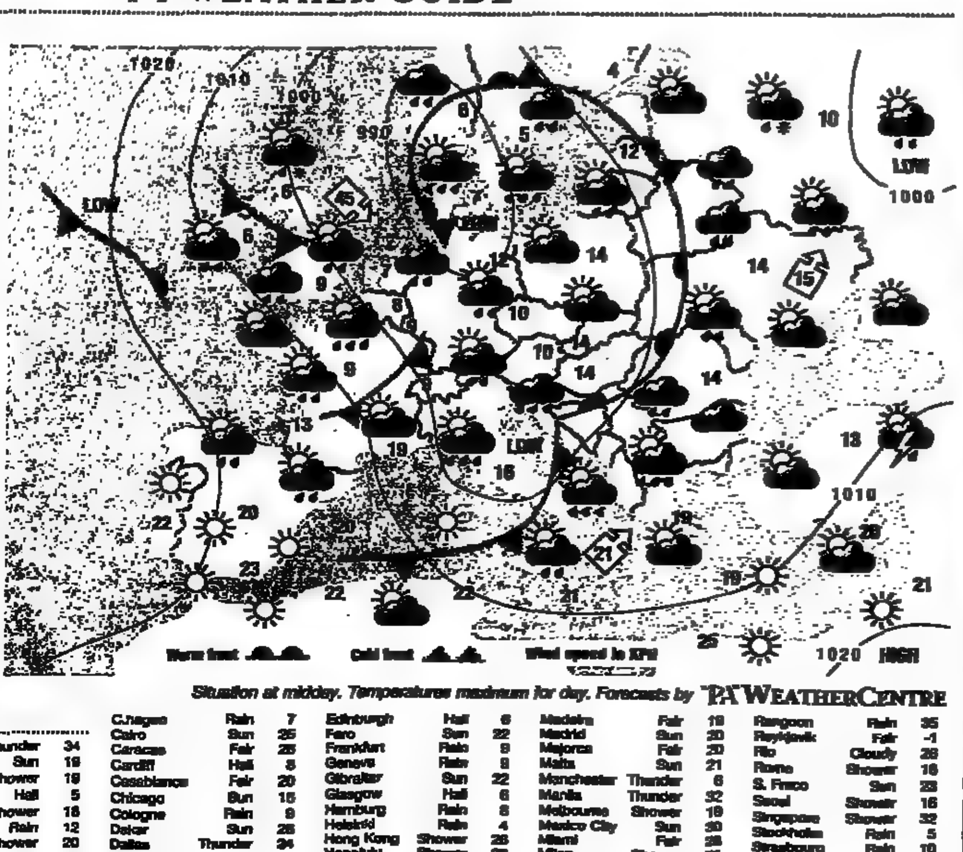
FT WEATHER GUIDE

Europe today

France, the Low Countries, Germany and the northern Alps will be cold and blustery with brief sunny spells and showers. Many of the showers will be heavy with a risk of thunder. Southern Scandinavia will also be showery but north-east Europe will be drier and more settled. Most of Spain and Portugal will be fine and sunny but showers will affect the far north. Italy, the Balkans and north-west Greece will be unsettled with slow-moving heavy showers but the rest of Greece and Cyprus should remain quite sunny.

Five-day forecast

Central and north-west Europe will stay cold and unsettled with showers and rain. Temperatures will be low enough for snow over high hills as far south as northern Spain. Italy and the Balkans will be showery again in mid-week. Greece will be fine and will turn hot later in the week.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	31
Accra	Sun	31
Algiers	Sun	22
Amsterdam	Hail	7
Athens	Fair	19
Atlanta	Sun	21
B. Aires	Thunder	21
B.ham	Thunder	8
Bangkok	Thunder	34
Barcelona	Sun	19
Beijing	Shower	19
Belfast	Hail	5
Belgrade	Shower	18
Berlin	Rain	12
Bermuda	Shower	20
Bogota	Shower	17
Bombay	Fair	32
Brussels	Thunder	8
Budapest	Shower	14
C.hagen	Rain	7
Cairo	Sun	25
Caracas	Fair	28
Cardiff	Hail	8
Casablanca	Fair	20
Chicago	Sun	15
Cologne	Rain	9
Dakar	Sun	28
Dallas	Thunder	34
Delhi	Sun	40
Dubai	Sun	30
Dublin	Rain	6
Dubrovnik	Thunder	15
Edinburgh	Hail	6
Faro	Sun	22
Frankfurt	Rain	9
Geneva	Rain	9
Gibraltar	Sun	22
Glasgow	Hail	6
Hamburg	Rain	8
Helsinki	Rain	4
Hong Kong	Shower	28
Honolulu	Shower	28
Istanbul	Fair	16
Jakarta	Thunder	33
Jersey	Shower	10
Johannesburg	Fair	24
Karachi	Sun	32
Kuwait	Sun	31
L. Angeles	Sun	18
Las Palmas	Fair	23
Lima	Cloudy	24
Lisbon	Sun	22
London	Thunder	9
Lux.bourg	Rain	5
Lyon	Shower	12
Madeira	Fair	19
Madrid	Sun	20
Majorca	Fair	20
Malta	Sun	21
Manchester	Thunder	6
Manila	Thunder	32
Melbourne	Shower	19
Mexico City	Sun	30
Miami	Fair	28
Milan	Shower	21
Montreal	Sun	7
Moscow	Shower	10
Munich	Rain	9
Nairobi	Fair	27
Naples	Thunder	15
Nassau	Fair	29
New York	Fair	13
Nice	Fair	17
Nicosia	Fair	20
Oslo	Shower	6
Paris	Shower	11
Perth	Sun	29
Prague	Shower	10
Rangoon	Rain	35
Reykjavik	Fair	-1
Rio	Cloudy	28
Rome	Shower	16
S. Frsco	Sun	23
Seoul	Shower	16
Singapore	Shower	32
Stockholm	Rain	5
Strasbourg	Rain	10
Sydney	Fair	23
Tangier	Fair	22
Tel Aviv	Fair	21
Tokyo	Shower	17
Toronto	Sun	11
Vancouver	Fair	17
Venice	Shower	14
Vienna	Rain	10
Warsaw	Shower	14
Washington	Fair	16
Wellington	Fair	15
Winnipeg	Fair	17
Zurich	Thunder	8

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INSIDE

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MARKET STATISTICS

Kvaerner in plan to quit shipbuilding

Wide-ranging restructure proposals from troubled Anglo-Norwegian group will seek sell-off of 12 yards

By Valeria Sköld in Oslo and Tim Burt in Stockholm

Kvaerner, the troubled has drawn up plans to sell its shipbuilding activities as part of a wide-ranging restructuring.

The prospective disposal of the shipbuilding division – comprising 12 shipyards in Europe, North America and south-east Asia – could signal the break up of one of the world's largest commercial ship manufacturers.

Kjell Almskog, Kvaerner's new chief executive, is expected to outline the sale plan today following an exhaustive review of the group's assets.

The move follows a study, which was carried out by Morgan Stanley Dean Witter, the US investment bank, of the trading prospects for Kvaerner's shipbuilding, construction, engineering and oil and gas activities.

Kvaerner confirmed yesterday that the announcement would be "fairly radical" but declined to give details.

A valuation of NKr5bn-Nkr6bn is thought to have been put on the yards, which include the loss-making Govan yard in Scotland and the Masa yards in Finland – one of the last European producers of large cruise ships.

It is understood, however, that the company will not discuss potential job losses among the division's 10,000 employees nor disclose the extent of discussions with prospective buyers.

Mr Almskog, who took over last December, has set a target of cutting overheads by NKr500-NKr800m annually.

The possible sale of the division will be the most far-reaching proposal of the restructuring, although other measures are expected in loss-making divisions. Kvaerner's shipbuilding, pulp and paper and oil and gas all suffered losses in the fourth quarter of last year.

The shipbuilding division contributed 16 per cent of Kvaerner's total revenues of NKr83bn in 1998, but made profits of just NKr321m.

The market has been expecting the reorganisation since Mr Almskog replaced Eric Tonseth, who was ousted as the company struggled to get rid of debt from the acquisition of Trafalgar House in 1996.

Industry analysts said it could be difficult to find a buyer to swallow the entire entity, pointing instead to a possible piecemeal sell-off and closure programme.

The Govan yard, which has lost money almost continuously since Kvaerner bought it in 1987, is expected to be a casualty of the restructuring. It has 850 direct employees and 350 contract employees.

Of the company's other yards, its Kvaerner Masa-Yards, Kvaerner Warnow Werft and Kvaerner Floro in Norway have an acceptable workload into the next millennium, as does its naval shipyard in Philadelphia.

Kvaerner's shipbuilding activities were adversely affected last year by loss-making contracts and costly arbitration settlements.

However, the company solved some of its problems last month by concluding a $250m loan from four banks to build two ultra-large cruise vessels.

Determined to cut overheads: Kjell Almskog became Kvaerner's chief executive in December Jason Orton

Telecom Italia's 'white knight' hopes fade

Way looks clear for Olivetti to proceed with hostile bid

By Vincent Boland and Alan Cane in London, Tom Burns in Madrid and Richard Waters in New York

Hopes that Telecom Italia would attract a "white knight" to fend off a €60.4bn ($65.23bn) bid from Olivetti were fading yesterday as potential saviours distanced themselves from a role in Europe's biggest takeover battle.

The prospect of a counterbid receded after British Telecommunications and Spain's Telefónica, two of the most prominent names mentioned as possible partners for the Italian telecoms giant, ruled themselves out.

"We are absolutely not interested in a 'white knight' role," a Telefónica spokesman said. "We have enough business to deal with as it is and don't need any more for the present." The Spanish operator is heavily committed in Latin America, though the setting up of a "Mediterranean axis" by aligning the interests of the two carriers is understood to have been raised at board level.

BT also said it had no interest in bidding for Telecom Italia, despite speculation that Franco Bernabe, the Italian group's chief executive, was to be in London tomorrow. BT said it was not its policy to take equity stakes in incumbent fixed-line operators. BT already has a fixed-line telecoms business in Italy through its Albacom alliance with a group of Italian corporate investors. It has also bid for a fourth mobile telecoms licence.

Deutsche Telekom, another possible white knight, would not comment on "market speculation". SBC Communications of the US also declined to comment but is not believed to be considering a rival bid for the Italian company.

Telecom Italia was reviewing plans to raise a €20bn syndicated loan as it struggled to get its strategy back on track. It suffered a setback at the weekend when too few shareholders turned up for meetings to approve defense measures against Olivetti.

It is understood that a meeting of arranging banks in London today will not now go ahead. Telecom Italia's failure to raise a quorum for the shareholder meetings means it has no authority to proceed with a share buyback and purchase of an outstanding 40 per cent stake in Telecom Italia Mobile, for which the cash was earmarked.

Telecom Italia's share price rose about 5 per cent as the way appeared open for Olivetti, a fifth of its target's size, to proceed with its bid. The shares closed 51 cents higher at €9.88, but they remain well below the €11.50 valuation put on them by Olivetti's mix of cash, debt and equity.

Olivetti is awaiting approval from the Italian stock exchange and judicial authorities after shareholder meetings last week gave it the go-ahead to launch the takeover bid.

Observer, Page 15

Compaq suffers 22% fall on profits warning

By Louise Kehoe in San Francisco

Compaq Computer shares plunged 22 per cent in heavy trading early yesterday as investors responded to the personal computer company's surprise profit warning.

Compaq was trading at $24¾ in mid-session, down $6⅛ from Friday's close as analysts reacted to the profits warning issued late on Friday.

Morgan Stanley Dean Witter and BancBoston Robertson Stephens lowered their investment ratings on the stock, while Salomon Smith Barney cut its rating and slashed its 1999 profit forecast to $1.14 a share from $1.93.

However, broader stock market reaction was muted as investors debated whether Compaq was the victim of market-wide pricing and demand trends, or had failed to keep pace with competitors.

Shares of other PC manufacturers were off by about 2-5 per cent in mid-session. Dell was down $2⅛ at $41⅞. IBM dropped $4¾ to $182⅛. Intel, the leading supplier of semiconductor chips to the PC industry, fell $3⅞ to $61½, while software giant Microsoft was trading at $92⅛, off $1⅛.

The Nasdaq index, heavily weighted to technology stocks, was up 12 points at 2,605 after an initial fall of 67 points.

Compaq insisted it had faced intense pricing pressures throughout the quarter in the North American and European markets for business PCs.

"There is a lot of data to suggest that pricing pressures are an industry-wide problem," Eckhard Pfeiffer, Compaq chief executive, said yesterday. A rapid decline in the average selling price of PCs was squeezing profit margins, Compaq said. But some analysts blamed Compaq itself for the earnings shortfall. Last week Dell Computer, the leading direct seller of PCs, said demand was healthy.

Compaq faces several unique challenges. It is in the midst of absorbing Digital Equipment, which it acquired last year, and the profit shortfall suggested that sales of Digital's large scale computers, which carry much higher profit margins, were declining, analysts said.

Desktop dinosaurs, Page 14

Korea bank loans stall Newbridge deal

By John Burton in Seoul

Talks on the acquisition of troubled Korea First Bank by a US financial consortium led by Newbridge Capital have reached an impasse that could threaten the landmark deal, South Korean officials said yesterday.

The collapse of the sale would represent a setback to the government's efforts to restructure South Korea's ailing banking sector by attracting foreign capital.

Korea First is one of the nation's weakest banks, whose sale to foreign investors was ordered by the International Monetary Fund as part of its $57bn rescue package for South Korea in late 1997.

Last December, Newbridge agreed to buy 51 per cent of the nationalised Korea First, but negotiations with the government have stalled over the amount of the bank's bad loans.

Newbridge, an investment firm, estimates Korea First's bad debts exceed its assets by Won7,000bn ($5.7bn), based on US accounting standards, while the government puts the bank's liabilities at Won4,000bn by assessing them at book value rather than market value. The government is responsible for assuming all bad loans the US firm finds after due diligence.

Officials claim acceptance of the Newbridge estimate would exhaust the Won8,000bn deposit insurance fund because the government is also required to shoulder Won4,000bn in bad debts of SeoulBank, being sold to HSBC Holdings.

The Financial Supervisory Commission recently estimated that it might need another Won10,000bn in addition to the Won64,000bn allocated to restructure the financial sector because of costs in saving other financial institutions, including life insurance companies.

Some officials said the government should try to find another buyer for Korea First.

But Sri-Ram Aiyer, the World Bank representative in Seoul, said: "The government shouldn't walk away from the deal since it has signed a memorandum of understanding. Such an action would undermine foreign confidence."

Analysts suggest that Newbridge underestimated the problems at Korea First when it signed the deal since the investment firm lacks experience in Asian banking. "It looks like they got in over their head and might be looking for an exit," said one foreign analyst.

In spite of problems over Korea First, Goldman Sachs, the US investment bank, yesterday confirmed it was leading a $500m investment to acquire a 17 per cent stake in Kookmin Bank, one of Korea's largest and healthiest banks.

"This is our largest investment in Asia and one of our largest in the world," said Henry Cornell, a Goldman Sachs managing director who will sit on the Kookmin board.

US CAR MAKER AIMS TO BECOME GLOBAL LEADER IN AUTO SERVICES

Ford makes $1.6bn agreed takeover bid for Kwik-Fit

By Susanna Voyle and John Griffiths

Ford Motor yesterday launched a £1bn ($1.6bn) agreed cash takeover bid for Kwik-Fit, the tyre and exhaust business, as part of the US car and truck maker's ambition to become a global leader in automotive services as well as vehicles.

The strategy sets Ford apart from most of its main rivals, which have been hiving off parts and other related businesses to concentrate on vehicle development and production.

"The acquisition of Kwik-Fit is an important step towards Ford's goal to become the world's leading consumer company that provides automotive products and services," said Jacques Nasser, Ford's chief executive and chairman.

Sir Tom Farmer, the executive chairman who founded the Scotland-based Kwik-Fit, stands to make more than £78m from his shareholding in the group, which is Europe's largest independent fast-fit repair chain. He will stay on in charge of the group, which will operate as a division of Ford, and will step up its European expansion plans and consider moving into Asia and Latin America.

Ford, which last year made its first move into UK car retailing via a joint venture with Jardine Motors, plans to tap all sectors of the vehicle after-sales market, including servicing and insurance.

Ford's offer of 560p a share represents a premium of 32.9 per cent over Kwik-Fit's closing share price on Friday. Shares in Kwik-Fit yesterday jumped 119½p – or more than 28 per cent – to 541p.

Sir Tom, 58, started the Kwik-Fit business in 1971, 15 years after leaving school at the age of 14 to work as a store boy in a tyre business. Yesterday he said becoming part of Ford would allow him to grow the business in continental Europe far more quickly.

"This gives us bigger financial muscle and enables us to be part of Ford and enjoy all of its resources," he said.

Apart from its UK exhausts, tyres and breaks operations, Kwik-Fit boasts an insurance sales business started in 1995 and a growing European business after a £105m French acquisition last year.

Ian McAllister, chairman of Ford of Britain, said the acquisition would give Ford access to a large market from which it had been largely excluded. The fast-fit replacement parts and servicing industry caters mainly for cars that are more than five-years-old and takes in non-Ford models. Some 80 per cent of Kwik-Fit's customers are estimated to be owners of cars other than Ford.

Mr McAllister said the continuation of Kwik-Fit's expansion in Europe would be followed by moves into the emerging markets.

Ford was advised by Goldman Sachs. Kwik-Fit was advised by HSBC Investment Bank.

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LIFE INSURANCE CANADIAN GROUP ESTIMATES PLANNED IPO WOULD BE PRICED HIGHER THAN US RIVALS

Mutual sees market value up to C$2.9bn

By Edward Alden in Toronto

Mutual Life, the first Canadian life insurance company to announce plans to demutualise, said yesterday its estimated initial market value would be C$1.9bn-C$2.9bn (US$1.2bn-US$1.9bn).

The estimate, based on market conditions as of March 15, prices Mutual Life at between 0.85 and 1.3 times book value, less than many analysts had predicted but more than the initial public offerings by US life insurance companies.

Mutual Life's 900,000 policyholders, mostly in Canada, will vote on the demutualisation plan on June 10, and choose whether to receive cash or shares in the new company, to be known as Clarica Life Insurance.

If the proposal was supported by two-thirds of policyholders, said Robert Astley, president and chief executive, the company anticipated a roadshow in June to meet North American and perhaps some European investors, followed by an IPO in July if market conditions were favourable.

"The size of the range is partly to indicate there is a good deal of uncertainty about this," he said in an interview. "One cannot predict four months in advance."

The IPO is being underwritten by Goldman Sachs and Nesbitt Burns, the Canadian brokerage. Shares will be traded on the Toronto and Montreal stock exchanges.

Mutual Life is Canada's fourth largest mutually held life insurance company by assets, just over half the size of Sun Life Assurance of Canada, the largest. Manufacturers Life and Canada Life are also planning to demutualise. All four expect to complete the process this year.

The companies hope that as publicly-traded entities they will be freer to make new acquisitions and to enter into partnerships and alliances. But they will also be more vulnerable to acquisition by Canadian banks or foreign financial services companies.

Mutual Life and Canada Life, as the two smallest, are thought to be particularly vulnerable. The Canadian government has said no mergers involving the companies will be allowed for the first two years after demutualisation, and no individual shareholder will be allowed to own more than 10 per cent in any company. Those restrictions will be reviewed after two years.

The Canadian life insurance companies are generally seen as stronger than their US counterparts, and had been expected to be priced as high as 1.5-2 times book value. The largest Canadian life insurance company, Great-West Life, is publicly traded at 3.3 times book. Mutual of New York, the 11th largest US mutual life company, went public last November at just 70 per cent of book value.

But Mutual's offering is expected to be priced at a range more in line with initial public offerings in Australia, South Africa and the UK, where the demutualisation process is more advanced.

Mutual Life faced significant challenges in responding to the new market environment, said Manfred Nowicki, vice-president with AM Best, the US insurance ratings agency.

"Their return on equity of just over 10 per cent is significantly less than their publicly traded competitors, and the company's business is concentrated in the mature Canadian market," he said. "Its US growth has also been slower than anticipated."

Goldman chief to net $206m from offering

By Tracy Corrigan in New York

Goldman Sachs chief executive officer Hank Paulson will be one of the biggest beneficiaries of the Wall Street investment bank's decision to become a public company, owning shares valued at $206.6m, following the initial public offering in early May.

According to the final prospectus for the offering published yesterday, Mr Paulson will own 4.1m shares, less than one per cent of the total.

As expected, the prospectus set a new pricing range of $45-$55 following a recent surge in financial stocks. Assuming that the shares are priced at the middle of that range, John Thain and John Thornton, co-chief operating officers, will own shares worth $155m and $151m each.

Two other senior officers, Robert Hurst and David Viniar, chief financial officer, will net $192m and $85m respectively.

Former senior partner John Weinberg, will net $22m because he is a limited partner. Mr Weinberg will have a seat on the board as will two external directors, Sir John Browne of BP Amoco and James Johnson, former head of Fannie Mae.

Jon Corzine, the firm's co-chairman, who was ousted as co-chief executive officer earlier this year, is not listed in the prospectus because he will leave the firm just before the IPO. He is expected to net around $200m.

The distribution of shares to partners is based on the size of stakes in the partnership, while for other Goldman staff, it is calculated according to a formula based on compensation and length of service, but includes a discretionary element.

Goldman also said that its pro-forma net earnings for the first quarter were $520m, after a $361m tax payment. Goldman had reported pre-tax earnings of $1.19bn before payments to partners.

Goldman also disclosed in its prospectus that it has set up an online trading business called GS-Online, which will underwrite securities offerings on the internet.

GS-Online will deal initially only with other underwriters and not with members of the public, according to the prospectus, but Goldman officials have previously said that they are reviewing internet strategies which could involve retail investors. Goldman has already invested in trading systems including Archipeligo, Optimark and most recently Wit Capital, an internet investment bank in which Goldman now owns 22 per cent.

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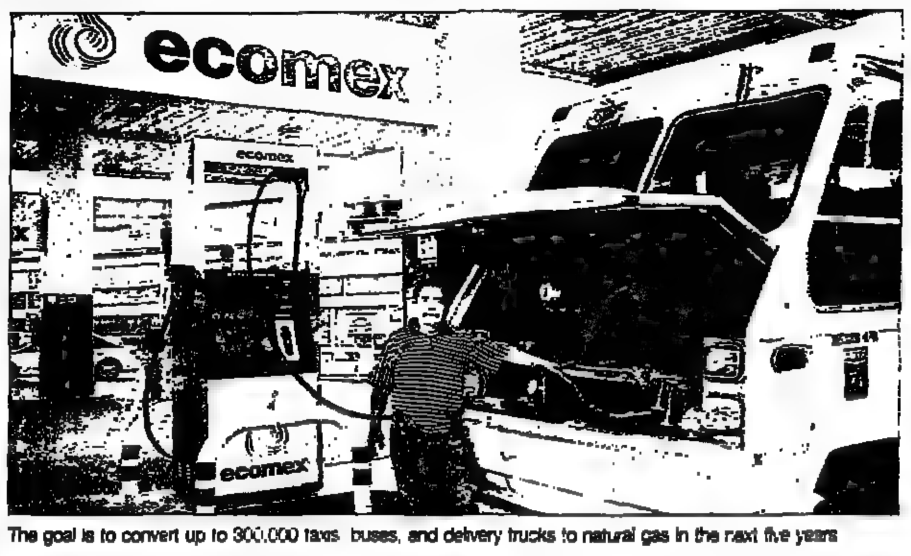
The greening of Mexico City

Andrea Mandel-Campbell looks at a move to promote cleaner fuel



The goal is to convert up to 300,000 taxis, buses, and delivery trucks to natural gas in the next five years

Narciso Gomez Vasquez was driving his usual route from downtown Mexico City to the industrial suburbs in the north when something caught his eye; an offer for free financing to convert the city bus he owns from gasoline to natural gas.

He estimates he saves $15 a day in fuel since becoming one of 50 bus drivers and 200 police patrol cars now filling up at the world's largest natural gas service station just north of the Mexican capital.

Built by Combustibles Ecológicos Mexicanos (Ecomex), a consortium led by Gaz de France and Canada's Hydro-Québec, the station is the first of what is expected to be an extensive chain offering cleaner and cheaper fuel for public service vehicles.

The two state-owned energy companies, together with Pan American Enterprises, their Mexican partner, plan to invest $23m this year, half in vehicle financing, and half to open five additional stations.

By 2003, Ecomex aims to triple the number of stations in and around the city, home to one-quarter of Mexico's 100m inhabitants, says Javier Garcia Herrera, Ecomex general director.

"We asked ourselves how could we make these stations take off and the answer was by creating our own market through public transport. The amount of fuel they use is key."

Ecomex is the first to open service stations since Mexico's state-run energy monopoly, Pemex, opened up the natural gas sector to private investment in 1996. Since then, natural gas distribution networks have been tendered out around the country, including Mexico City and the state of Mexico, which was also won by a consortium in which Gaz de France had a 26 per cent stake.

In the city and surrounding state, the winning consortia have pledged to invest $1bn over the next five years to triple the number of industries and private homes using the fuel.

Sergio Zirath, director of research and environmental projects for the Mexico City government, says the expanded pipeline network will eventually supply Ecomex and what is hoped will be a host of similar projects being studied by US developer, Trillium, as well as a number of Argentine firms such as Galileo and energy giant, YPF.

Mexico is hoping to imitate Argentina, world leader with 600,000 cars operating on natural gas. Also like Argentina, Mexico has large natural gas reserves and by promoting its use hopes to wean itself off gasoline imports, which cost Pemex $1.5bn last year.

But while it may take a while to trickle down to the trade balance, government officials say the move will have an immediate impact on Mexico City's stifling pollution. Vehicle emissions are responsible for 75 per cent of the city's soup-like atmosphere and contribute to more than half of the dangerously high ozone levels, which surpass air quality norms for most of the year.

To combat the problem, cars without catalytic converters – some 60 per cent of those on the road – are prohibited from circulating one day of the week while a full 20 per cent of industrial fleets are permanently parked.

The goal however, is to convert 200,000-300,000 taxis, buses, delivery trucks and other vehicles of intensive use to natural gas in the next five years, thereby cutting pollution levels by 15-20 per cent, says Mr Zirath.

To do that the city is investing $46m this year to buy 500 natural gas garbage trucks and 600 police patrol and utility vehicles.

In a second phase the government is negotiating a $20m loan from the World Bank to buy 250 buses and is also in talks with the French government for a donation that will allow for the conversion of 1,000 more.

For the government, effort remains targeted at public transport due to the high cost of conversion, but for Ecomex it is only a matter of time before private car owners switch to natural gas.

"The infrastructure will start to create local markets, drawing in fleets like Coca-Cola as well as vehicles from neighbouring areas," says Ecomex's Mr Garcia Herrera. "When there are 15 or 20 stations up and running, private users will believe there is enough infrastructure for them to convert as well."

CBS continues its internet and TV expansion

By Christopher Parkes in Los Angeles

CBS continued its rapid-fire expansion drive yesterday with three deals worth almost $900m which will extend its interests in internet retailing and entertainment and add a further big-city television station to its collection.

Gaylord Entertainment is to receive $485m in CBS shares in return for its Dallas station, KTVT-TV. In return for $100m of promotion on its TV, radio, and billboard assets, the group will also buy a 50 per cent stake in closely-held Storerunner.com.

Storerunner is an online shopping mall with plans to expand in local e-commerce, with a system featuring smaller retailers, which have not so far figured large in the evolution of internet business.

With a similar $100m promotion-for-equity transaction, CBS will take a 35 per cent share in Hollywood.com in a joint venture with Big Entertainment, which is buying the film and entertainment news and information provider from Times Mirror, publisher of the Los Angeles Times.

While the Dallas acquisition, which gives stations owned by CBS coverage of 34 per cent of the US TV audience – one percentage point less than the maximum allowed – Mel Karmazin, chief executive, said the group was "only at the beginning" of its internet strategy.

The aim was for CBS to be as strong in online media as it was in television, radio and outdoor billboard advertising, where it ranks among the market leaders.

CBS already has minority stakes in the SportsLine and CBS MarketWatch internet ventures.

Mr Karmazin, who recently told investors he was considering bundling its "new media" interests into a separate company and spinning it off, said they were now worth more than $500m.

Earlier this month the company agreed to pay $2.5bn for King World Productions, which distributes some of the most popular game and talk shows on US and international television, including *Wheel of Fortune* and *The Oprah Winfrey Show*.

Mr Karmazin has also expressed interest in buying rival NBC, the leading broadcast network, although regulations prevent the ownership of more than one.

Blackstone joins steel venture

By Nikki Tait in Chicago

Further rationalisation loomed in the US steel industry as US Steel and Japan's Kobe Steel said yesterday they would pool joint venture steelmaking and bar-producing interests with those of Blackstone Partners, the New York-based investment firm.

The combined operations will be owned 30 per cent by US Steel/Kobe and 70 per cent by Blackstone or interests associated with it.

The US Steel/Kobe joint venture dates back a decade, and consists of the Lorain, Ohio, steel operations. These encompass raw steel-making, plus bar and tubular products, and have been operating in the red.

The tubular products business will be excluded from the sale, but the bar capacity is put at about 1m tons and the raw steelmaking capacity at about 2.6m tons. In total, the businesses employ about 2,700 people.

The Blackstone interests include Republic Engineered Steels and and Bar Technologies, formed from the former bar, rod and wire interests of Bethlehem Steel.

US Steel said yesterday the rationale for the deal – which it claimed had been proposed by Blackstone – was "to improve profitability". It declined to say what form any rationalisation might take, but other sources suggested the partners would be looking for a substantial restructuring of the combined interests.

The deal is conditional on various approvals, the refinancing of debt arrangements and a new labour agreement with the United Steelworkers union. The companies said they did not expect it to close before late summer.

Contrasting fortunes for newspapers

By Richard Waters in New York

The fortunes of the two largest circulation US newspapers, the Wall Street Journal and USA Today, diverged markedly in the first three months of this year, according to earnings released by their parent companies yesterday.

However, with the help in part of share buy-backs, both Dow Jones and Gannett reported double-digit increases in underlying earnings per share for the period.

The Wall Street Journal's advertising volumes edged ahead by only 1.4 per cent during the period, even after a rebound in March that saw lineage up 11.8 per cent compared with a year before.

The paper was hit by a slide in financial advertising: together with weaker sales in Asia, that left operating profits in Dow Jones's core print publishing division 1.4 per cent lower than a year before, at $52.5m.

USA Today, meanwhile, continued to benefit from the strong growth in US consumer spending. Its advertising revenues jumped 16 per cent from a year before as the number of paid advertising pages in the newspaper rose 11 per cent. Gannett, its parent, reported an overall increase of 10 per cent in operating profits from its newspaper operations in the quarter, to $248m.

The outlook for Gannett's earnings for the rest of this year remained good, with the outlook for consumer spending strong and the prospect of a decline in newsprint prices, said James Marsh, newspaper industry analyst at Prudential Securities. Despite this, the stocks of Gannett and other US newspaper groups remain nearly 20 per cent below their peaks of last summer.

AIRLINES BRAZILIAN CARRIER ENLISTS HELP OF BANKERS TRUST TO STAVE OFF COLLAPSE

Varig set to renegotiate debts

By John Barham in São Paulo

Varig, the troubled Brazilian airline and Star Alliance member, has hired Bankers Trust to help it renegotiate $1.8bn in debts owed to banks, leasing companies and suppliers as part of a plan to stave off collapse.

The plan was agreed with shareholders at the weekend. It includes cuts in routes and job reductions and the return of 12 aircraft to manufacturers as well as improved terms from creditors.

However, bankers and a representative of Varig's creditors said the strategy was inadequate and warned that debt restructuring would yield scant benefits.

It was not clear whether Bankers Trust, now owned by Deutsche Bank, would operate in tandem with an existing team from Warburg Dillon Read, the Swiss-owned investment bank, that Varig retained to plan a broad restructuring.

One executive said Varig was likely to find it much harder to negotiate with creditors now than five years earlier during a previous debt crisis. This is because creditors now have significant amounts of collateral backing their loans or receivables.

If one of them were to declare Varig to be in default, this could trigger cross-default clauses.

A fierce price war and January's 40 per cent devaluation of the Real worsened the privately owned flag carrier's already delicate finances. It has not yet reported its 1998 results.

A shift in the structure of the airline market has worsened the outlook for Brazil's airlines. One US banker said: "When you open borders [to competition] how can smaller less capitalised Brazilian carriers compete when there is excess capacity?"

Fernando Pinto, Varig president, said the group could try to raise more equity from a new partner once the plan was in place. However, bankers doubt Varig would be able to attract the $1bn in capital it needs from private investors or other airlines.

One banker said: "Their only hope is a bail-out from the federal government."

Internal divisions have accelerated the decline in Varig's fortunes. The airline is 87 per cent owned by a foundation controlled by employees, which has resisted a more aggressive restructuring demanded by creditors.

Outside directors appointed by creditors attempted to oust Mr Pinto in February. He called a shareholders' meeting last month and forced the board to resign instead.

Nelson Bastos, one of the creditors' representatives on the former board and its unanimous choice as Mr Pinto's replacement, said Varig "needs a cost-cutter who is not limited by the foundation. Renegotiating with creditors requires a credible internal reform [to be carried out] by someone with credibility."

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Creditors stall Indofood sale

By Louise Lucas in Hong Kong and Sander Thoenes in Jakarta

The planned US$570m acquisition of a 60 per cent stake in Indofood Sukses Makmur, Indonesia's biggest food producer, has been stalled by its inability to obtain all the necessary approvals.

Indofood secured shareholders' approval for the sale to First Pacific of Hong Kong and Nissin, a Japanese food maker, but had not received the necessary backing from its creditors, to whom Indofood owes more than US$1bn in debts.

The deal, announced in December, marked a breakthrough for the indebted Salim Group, which controls Indofood, and for Indonesia, which has attracted little of the foreign investment making its way back into Asia. Salim also controls First Pacific.

Yesterday, First Pacific told the Hong Kong stock exchange that several conditions of the deal – including obtaining third party consents – remained unfulfilled and warned this might remain the case.

"At this time there can be no assurance that these issues will ultimately be resolved to the parties' satisfaction. If these issues are not resolved, the parties to the stock purchase agreement may either waive the relevant conditions or terminate the agreement," it said.

Indofood shares yesterday fell Rp500, or almost 8 per cent, to Rp5,800 on the Jakarta stock exchange.

The delay is the second setback this month for Salim's efforts to pay several billion dollars in offshore debt, as well as Rp32,000bn (US$3.66bn) owed to the Indonesian government.

Last week Salim announced that the sale of 23 per cent of its United Industrial Corp property subsidiary in Singapore, to Hong Kong's HKR International, had collapsed. This was because United Industrial had failed to meet a guarantee that its profits for 1998 would not fall by more than 35 per cent.

Mirvac to create property giant

By Russell Baker in Sydney

Mirvac, an Australian property group, is to merge with two property trusts, Mirvac Property Trust (MPT), and Capital Property Trust, to create one of the country's largest listed property organisations.

The merger will form the Mirvac Group which will have assets of more than A$2bn ($1.26bn) and a market capitalisation of about A$1.7bn.

As part of the deal, which has the support of all three boards, Mirvac Group also intends to raise A$100m in new equity by restructuring variable priced options previously issued by Mirvac.

The merger will be effected by stapling Mirvac shares to units in MPT and Capital to form stapled securities in Mirvac Group. Mirvac shareholders would receive 0.7336 Mirvac Group stapled securities for each Mirvac share, or a cash alternative.

The merged group is forecast to achieve a net profit of A$133.9m in the year to June 30 2000. The merger is subject to shareholder, unitholder, court and regulatory approval and is expected to be completed by the end of June.

Mirvac Group will be the third largest entity in the Australian Stock Exchange's Property Trust index as well as being one of the 60 largest in the benchmark All Ordinaries index.

NEWS DIGEST

SOUTH KOREA

Merchant banks meet capital adequacy ratios

South Korea's 11 merchant banks, which specialise in short-term corporate lending, have achieved an average capital adequacy ratio of 10.24 per cent, which makes it unlikely that any more will have to close, the Financial Supervisory Commission said yesterday.

Merchant banks have been blamed for helping cause Korea's financial crisis in 1997 by borrowing short-term funds abroad that they were unable to repay. The government has shut 19 of 30 merchant banks, including Daehan Investment Banking, whose operations were suspended last week. Under its agreement with the International Monetary Fund, the government promised to take "prompt and corrective action" against merchant banks whose capital adequacy ratio fell below 8 per cent.

The merchant bank sector posted a combined loss of Won402bn ($328.6m) last year, down from Won599bn in 1997. Only four merchant banks recorded profits. They were Tong Yang, Korea Merchant Banking, Korea French and Kyungsu. **John Burton, Seoul**

TAIWAN

Profit for Acer Semiconductor

Acer Semiconductor, the chip unit of Taiwanese computer giant Acer, said yesterday it made a small profit in March after more than 30 consecutive months of losses. Stan Shih, Acer chairman, said the unit should be able to reach a T$1bn ($30m) profit target for 1999, but the company said that it retained its official forecast that it would merely break even this year. The unit lost more than T$5bn in 1998.

Much of the revival in Acer Semiconductor's fortunes stems from the relative strength of prices for D-Rams, or dynamic random access memory chips, after years of fierce decline. Mr Shih, who took direct control of Acer Semiconductor last year, aims to shift the unit's focus from D-Rams toward more lucrative made-to-order logic chip production. However, D-Rams are expected to account for at least 80 per cent of output this year. The company said it lost money in the first quarter overall, but declined to give details. The unit is 50 per cent owned by the Acer group, which has been hit by falling margins in some of its core businesses and by poor performances from its overseas operations. **Mure Dickie, Taipei**

ALUMINIUM

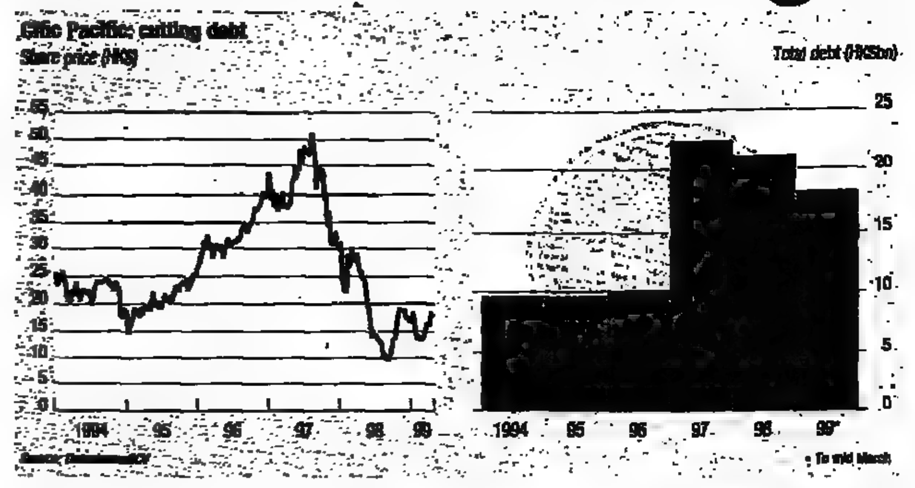
Nalco hit by smelter failure

A big fall in metal production caused by smelter failure and low prices of alumina and aluminium depressed net profits of National Aluminium Company, India's largest integrated aluminium complex, by more than 55 per cent in the year to March 31, 1999, from Rs5.47bn ($128m) to Rs2.4bn.

Sales were down to Rs15.06bn from Rs18.54bn. Production of aluminium fell over 54,000 tonnes to 146,000 tonnes as "poor plant maintenance and an exceptionally hot summer last year played havoc with the smelter", said SN Johri, chairman. "While we took the beating last year, the good thing is that Nalco has bounced back to near normal production and of late there has been some improvement in world aluminium prices." But as the alumina refinery functioned efficiently, production of alumina was up 16,700 tonnes to 900,000 tonnes and export rose from 479,801 tonnes to 630,000 tonnes. Fall in metal production left the company with considerable surplus of alumina which was exported. **Kunal Bose, Calcutta**

Citic struggles with fundamental changes

The investment group is fighting to reduce its debt liabilities and adjust to the harsh new economic climate in Hong Kong



By Rahul Jacob in Hong Kong

Larry Yung's career has long been defined by paradox. As the head of Citic Pacific, the Hong Kong arm of Beijing's main investment vehicle and the son of a former Chinese vice premier, his connections in China are perceived to be impeccable.

Yet it is in Hong Kong that his most eye-catching deals have been struck, securing Citic's place among the territory's business establishment. In 1996 and 1997, he bought large stakes in Cathay Pacific, the airline, and CLP Holdings, one of the territory's two power companies.

But Mr Yung's consummate deal-making with the bluest of Hong Kong's blue chips has also left the company with a heavy debt load. After Hong Kong's stock market bubble burst in late 1997, Citic's share suffered a drop from HK$53 in August 1997 to a current HK$18.05. The tumble in the company's market value made the debt levels seem worrisomely high. "My personal priority is to reduce our liability. The fundamentals have changed," says Mr Yung.

Reducing the company's debt has become an obsession for Mr Yung and his senior management at Citic Pacific. At the company's results meeting in March, Citic announced that the company had been actively paring its debt from HK$21.2bn ($2.7bn) at the end of last year to HK$18.8bn by the middle of March.

Its gearing has come down from 51 per cent to 43 per cent. Citic said it had sold infrastructure projects in China this year, including a water plant and a toll road.

Almost overnight, it seems, Hong Kong's fundamentals have changed along with investors' views on Chinese companies. The same investors who queued up to get in early on the latest IPO of red chips, mainland backed companies listed in Hong Kong via subsidiaries such as Citic, now shun their stocks.

But yesterday's era of negative real interest rates in Hong Kong has been replaced by an environment in which the territory has among the highest real interest rates in Asia.

Red chips are down on average about 6 per cent since the beginning of the year while the rest of the Hong Kong market is up.

Citic's preoccupation with paring its debt means it will miss out on picking up bargains amid the rubble of Asia's downturn. For a company that was once viewed as a growth stock and promised to deliver earnings growth of 15 per cent every year, the harsh new realities means it must lower expectations. Mr Yung admits as much. "Keeping the return high will not be so easy," he says.

Still, the company's infrastructure projects in China are expected to provide a steady stream of revenues. Infrastructure investments, including its toll roads, tunnels in Hong Kong and power plants, accounted for 80 per cent of the company's profits in 1998. CLP Holdings, the electricity company, provided more than half of that total.

Worldsec International, a Hong Kong-based brokerage house estimates that excluding exceptional gains, the company's profits will increase from HK$2.8bn in 1998 to HK$3.5bn this year helped by the booking of the profits on a property development, but thereafter will inch ahead with single digit increases.

"It will become more of a utility with fewer growth opportunities," says Carlton Poon, a director of the firm. To substantially reduce its debt, Citic would have to cut its capital expenditure programme in China or sell some of its shares in Cathay or CLP Holdings.

Mr Yung's own net worth has plummetted with the value of red chips. In 1996, Citic's board acquired about 15 per cent of the company at HK$33 a share from its mainland parent, a hefty discount to the prevailing share price. The shares' poor performance has left Hong Kong abuzz with speculation about Mr Yung's own finances.

Some people wonder if he has had to pledge a chunk of the shares to keep his stake while others say he has sold his more than 800-acre country estate in the UK which was owned by the late British premier Harold Macmillan.

Mr Yung denies he has sold his "dream place" in England. "I haven't sold a single share of mine. This is like a chess game. Now is the most interesting time," he says.

The challenges Citic now confronts promise more interesting times for Mr Yung. "If you start off with a big amount of seed capital, a lot of people eager to do business with you because of your perceived connections during a period of high growth, it's easy to make money."

He learned about rebounding from adversity from his father, Rong Yiren, who suffered a fall from grace during China's Cultural Revolution but eventually became a vice-premier of China.

"Call me a gambler or call me a fighter. I won't deny I have an appetite for risk," says Mr Yung.

In a city that prides itself on its own resilience, crafting a comeback for Citic would help keep Mr Yung's place at the table of Hong Kong's establishment.

Sales stuck in rough

Patrick Harverson examines a reversal of fortunes in the US

Yesterday's news from Adidas-Salomon that sales at its Taylor Made golf equipment subsidiary fell 25 per cent in the first three months of this year, suggests last year's slump in the golf equipment industry may be continuing.

Although the German sporting goods company was confident that Taylor Made's annual results would eventually show an improvement on last year, there is no disguising the problem facing golf equipment makers.

One reason for the industry's woes has been the economic crisis in Asia, which accounts for 20 per cent of sales. The recession, especially in golf-mad Japan, has taken its inevitable toll on sales.

However, the real problem has been in the US, which accounts for more than half of worldwide sales and is home to most big manufacturers like Callaway, Taylor Made and Cobra Golf.

After enjoying an unprecedented boom in the mid-1990s, when US sales of golf equipment climbed from $1.3bn in 1993 to $2.5bn in 1997, the industry suffered a sudden and severe reversal last year as sales fell by an estimated 15 per cent to 20 per cent.

Callaway, the company that revolutionised the market with its oversize Big Bertha metal woods, took the biggest hit. Having grown turnover from just $21m in 1990 to $843m in 1997, Callaway saw revenues slump to less than $700m in 1998.

Profits of $133m were turned into losses of $27m. 1,000 employees were made redundant, and Callaway shares plunged from $34 to less than $10 in less than 12 months.

Other manufacturers did not suffer as badly but their shares have also endured a horrible year. The golf stock index of golf-related companies, compiled by the London-based Golf Research Group, has fallen 60 per cent from its 1997 high. Admittedly, a large part of that fall is down to Callaway.

What has made the decline in the US all the more remarkable is that equipment sales have slumped at a time when the US economy has never been stronger, the "leisure dollar" never more powerful, and golf never more popular.

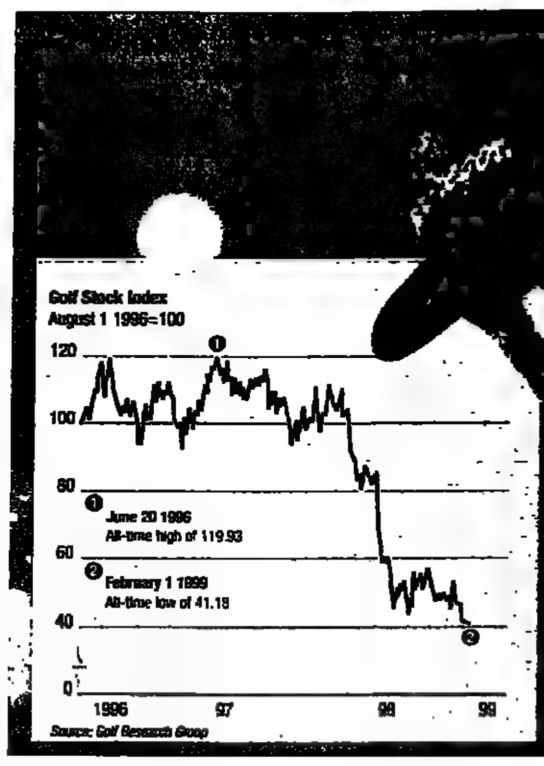
After years of stagnation, the number of US golfers in 1997 increased 7 per cent to 26.5m, with the number of first-time players jumping 50 per cent.

Professional golf is booming, and Sunday's climax to the Masters tournament in Georgia was watched by a vast television audience. With youthful, dynamic players such as Tiger Woods, David Duval and Lee Westwood emerging as superstars, and golf regarded as fashionable among the young, the sport is on a roll.

So why is the equipment industry struggling? The answer partly lies in pricing. Last year there were signs that the golf club prices, which climbed steadily during the 1990s on the back of rapid improvements in club technology, had risen too high.

With top-of-the range drivers selling for $500, and a good set of irons costing more than $1,000, prices in the US moved beyond the reach of ordinary golfers. They became steep for golf's newcomers seeking an affordable entry into what can be an expensive, elitist sport.

Prices have recently been cut but the new clubs are still not selling well. The result has been falling margins and excess stock.



Analysts believe a big weakness is the absence on the market of the kind of exciting, technologically-advanced golf clubs that drove sales in the mid-1990s.

"There's been incredible technical innovation over the last decade, and it is becoming hard to make technical strides every year," says Colin Hegarty of the Golf Research Group.

Without a "must-buy" product on the shelves, it seems many US golfers will be content with their existing sets. That is bad news for manufacturers and retailers.

With no sign of the slump in club sales ending, the equipment companies are turning to the humble golf ball as a way out of trouble.

"They are a very high-margin product," says Mr Hegarty. The US golf ball market has grown from $585m in 1994 to $700m last year, and club-makers like Callaway are keen to steal market share from the long-time industry leader, Titleist.

Flagging golf brand hits Adidas profits

By Uta Harnischfeger in Frankfurt

Adidas-Salomon, the world's second biggest sporting group, yesterday said it expected a 35 to 40 per cent fall in its first-quarter pre-tax profit from the same period last year, due to the weak performance of its high-end golf brand and high promotional expenses.

Pre-tax profits for the three months to March could be as low as DM180m (€92m, $99m), as sales of its newly launched Taylor Made product line declined sharply and marketing spending grew by DM70bn.

Sales for the first quarter remained flat at around DM2.7bn. The grim first quarter clouded the picture for the sports goods maker although the company maintained its initial full-year forecast, predicting a 10-15 per cent rise in net profits on slight sales growth.

Yesterday's results, which caused Adidas shares to fall 1.8 per cent to €76, are the latest in a series of disappointments since Adidas acquired Salomon, the French ski and golfing equipment maker, in late 1997. The group's shares have fallen almost 55 per cent from a high in April last year.

Sluggishness in the international sports goods market combined with difficulties in integrating the two operations and a delay in realising synergies from the merger.

In the first quarter the group saw a slight growth in Adidas brand products while sales in its Salomon brand goods grew briskly. Nevertheless, its Taylor Made golf products continue to pose a headache, with the Taylor Made subsidiary posting a 25 per cent fall in sales.

Adidas yesterday repeated earlier warnings that synergies from the merger would not materialise as soon as expected. Last month the company said it would realise only DM35m from synergies instead of the previously forecasted DM60m.

Promotional and advertising expenditure was substantially higher in the first quarter. Since January, marketing costs increased by DM70m, after signing contracts with European soccer clubs and boosting spending in the US and Japan.

For 1999, the company said the outlook remained brightest in the US. Last year Adidas' shoe business did particularly well in the US, where it doubled its market share to 12 per cent. It boosted worldwide sales of Adidas branded goods by 26 per cent, while competitors such as Nike and Reebok registered sales and profit losses.

Deutsche buys stak[e] Polish ba[nk]

هكذا من الاصل

Deutsche buys stake in Polish bank

By Uta Harnischfeger in Frankfurt and Christopher Bobinski in Warsaw

Deutsche Bank revealed yesterday that it had quietly acquired a 9.9 per cent stake in BIG Bank Gdanski, Poland's fifth largest bank and one of the few remaining listed banks without a strategic foreign investor.

The disclosure follows intense speculation in the Polish market over BIG Bank, shares in which have soared by 160 per cent since the beginning of last month on heavy buying by an unidentified investor. The shares closed yesterday at 7.65 zlotys, below last week's high of 8.85 zlotys.

Deutsche said yesterday it would now start talking to the management of BIG Bank, sending a strong signal that it was seeking to acquire more of the state-owned bank. However, BIG management appears determined to remain control.

The German group, which did not disclose the price it paid for its BIG stake, has been seeking to expand in Poland but has seen its bids to purchase state-owned banks rejected by the treasury.

Other German banks, including Commerzbank and Bayerische Hypovereinsbank, already own strategic stakes in Polish banks BRE and Krakow-based Bank Przemyslowo-Handlowy.

BIG Gdanski was founded in 1989 by Boguslaw Kott, its managing director. It has expanded through a series of acquisitions.

Recently, BIG Bank Gdanski entered into a partnership with the Bank Commercial Portugues to develop Millenium, a chain of retail banking outlets.

GERMANY DEUTSCHE BANK CHAIRMAN BACKTRACKS ON STATEMENTS THAT MONEY WOULD BE USED FOR EUROPEAN ACQUISITIONS

Capital increase set aside for Bankers deal

By Uta Harnischfeger in Frankfurt

Deutsche Bank, Germany's largest, signalled yesterday that all of its DM6bn (€3.07bn, $3.31bn) capital increase launched last week would be earmarked for the $10.1bn purchase of Bankers Trust, the US investment bank, backtracking from earlier statements that the money would be used in part to fund European acquisitions.

Analysts said that the comments by Rolf Breuer, Deutsche chairman, might signal that Deutsche was planning to raise even more capital, in anticipation of making an acquisition in Europe.

That, in turn, might suggest that Deutsche is taking a more aggressive stance in Europe's rapidly consolidating banking industry.

The bank could be earmarking some of the money for the Holocaust compensation fund or for additional expenses for the purchase of Bankers Trust.

Ever since Deutsche Bank announced its Bankers Trust purchase in November, analysts had widely expected that the acquisition would cost the German bank more than the $10.1bn purchase price.

Matthew Czepliewicz, analyst at Salomon Smith Barney, said Deutsche might have to pump a further $1bn into Bankers, and said that he saw additional expenses for loyalty retention payments and for the Holocaust fund.

Mr Breuer said yesterday that his earlier remarks had been misunderstood, and that he had never considered that any of the DM6bn should be used for European acquisitions.

"At present, we need DM6bn for Bankers Trust," he said.

The capital increase gave Deutsche some leeway, Mr Breuer said. Even though Deutsche Bank is paying $93 a share for Bankers Trust, it says that the exact amount of goodwill is still unclear, making it uncertain how much core capital it will need to maintain its Tier 1 ratio and to maintain its financial flexibility.

Mr Breuer said yesterday that Deutsche had realised it would need more core capital than it had initially expected.

Because the bank has to write off goodwill under German accounting laws, higher-than-expected goodwill forces the bank to supplement its core capital.

Mr Breuer also said the bank had misjudged some IAS accounting rules and how some hybrid instruments were accounted for.

At Deutsche's earnings press conference last month, Mr Breuer had said the capital increase would be used to fund the purchase of Bankers Trust, for which Deutsche Bank had already raised 60 per cent on capital markets, but also to fund growth in Europe.

In Frankfurt, Deutsche Bank's shares closed 3 per cent lower at €48.97.

Rolf Breuer: comments may signal plan to raise more capital for European acquisition

NEWS DIGEST

TRUCKING

Renault chief hints at possible Nissan Diesel sale

Renault has not ruled out a sale of Nissan Diesel, the troubled truck-making arm of Japan's Nissan Motors, Louis Schweitzer, chairman of the French carmaker, said in an interview published yesterday. Renault bought a controlling 37 per cent stake of parent company Nissan Motors last month and 22.5 per cent of Nissan Diesel. La Tribune, the French newspaper, quoted Mr Schweitzer as saying Renault expected to complete an examination of Nissan Diesel in the summer and would set a plan of action then. He said Nissan Diesel might be sold if it could not be merged with Renault's own truck business, Renault VI. Renault's stock was the top gainer on the Paris bourse yesterday, finishing 5.64 per cent higher at €35.60 ($38.36) in a market that ended 0.19 per cent lower. Nissan Diesel is struggling in the face of a collapse in Japan's truck market. "It's true that Nissan Diesel isn't doing well," Mr Schweitzer said. "However, it's embarked on a restructuring plan that is tough by Japanese standards, envisaging the closure of a second factory and carrying out drastic reductions in staff. But at this stage, we don't know the recovery prospects of Nissan Diesel." **Reuters, Paris**

FRANCE

Lagardère bids for Europe 1

Lagardère, the French magazines-to-missiles group, said yesterday it would buy the shares in Europe 1 Communication it did not already own, with an offer of €290 ($312.53) a share. Lagardère owns 45.11 per cent of Europe 1's capital and 54.78 per cent of the voting rights through its wholly owned subsidiaries Hachette SA and Holpa. Europe 1 runs the radio station of the same name in France and is engaged in television and radio production. The market welcomed the news, marking Lagardère shares up 1.35 per cent at €30.71. Europe 1 shares were suspended after closing on Friday at €225. The buy-in also raised hopes of a similar offer for Lagardère's other main media subsidiary, Hachette Filipacchi Medias, which was up 5 per cent at €225.80. **Reuters, Paris**

PHARMACEUTICALS

Pliva profits rise 14%

Pliva, the Croatian drugs group, said its 1998 net profit, excluding minorities, rose 14.2 per cent to 688.8m kuna ($98m) in 1998, at the upper end of analysts' expectations. Net profit attributable to shareholders, including a 17.6m kuna contribution from minorities, rose to 706.4m kuna from 604.3m kuna in 1997. Turnover grew 25.6 per cent to 3,58bn kuna. Sales of azithromycin, Pliva's top drug, rose in the US and western Europe, and there was 77.6 per cent growth in overall sales in central and eastern Europe. Consolidation of Polish drug maker Pliva (Polfa) Krakow, which it bought late in 1997, also provided impetus. Operating profit rose 41 per cent to 1.079bn kuna, but a lack of earnings from financial activities – a significant cash earner in previous years – hurt the bottom line, said Zeljko Covic, chief executive. **Reuters, Zagreb**

GERMANY

Viag may sell shipping stake

Viag, the German industrial conglomerate, yesterday confirmed it was in talks with Kühne & Nagel about the possible sale of its 30.3 per cent stake in the Swiss shipping group. However, Viag suggested the talks had some way to go. It announced last November it wanted to dispose of its Kühne & Nagel holding as part of plans to sell logistics and other businesses with annual sales of DM14bn-DM15bn (€7bn-€7.6bn, $7.7bn-$8.2bn). **Ralph Atkins, Bonn**

TELECOMS

Elektrim to buy Pilicka

Elektrim, one of Poland's largest listed companies, has agreed to pay no more than $140m for Pilicka Telefonia, a local fixed line telecoms operator, as part of an ambitious attempt to become a national provider of telecoms services. Pilicka Telefonia holds licences that give it access to 2m people. The agreement comes soon after Elektrim bought Bresnan Telecommunications Poland, a local telecoms and cable TV operator with access to 1.5m people, for $325m. Elektrim now holds licences giving it access to 28 per cent of the population and is negotiating exclusively with PTO, another local operator with access to a further 20 per cent. The Pilicka purchase is to be paid for in cash and bonds and the deal is to be closed by August 1. Pilicka is owned by PenneCom, a group of private investors, and serves a mere 10,000 subscribers. Elektrim also owns 32 per cent of Era GSM, the country's most successful mobile telecoms operator along with DT Mobile and Mediaone as the other main investors. Mediaone is expected to offer its stake in Era GSM for sale soon, and Elektrim has said it wants to expand its holding. **Christopher Bobinski, Warsaw**

Real tests still way down the road for DaimlerChrysler

US investors are concerned over different corporate cultures despite merged group's gains, say **Uta Harnischfeger and Nikki Tait**

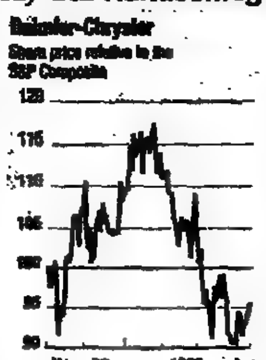
DaimlerChrysler is certainly *trying to reassure US investors* concerned that the group may be becoming a little too Teutonic.

At its annual earnings conference in Stuttgart last month, co-chairmen Robert Eaton and Jürgen Schrempp broke with the German tradition of reading long speeches, instead briefly summarising their synergy and performance goals. On the buffet, sausages and beer were conspicuous by their absence.

But there is more at stake for DaimlerChrysler than issues of presentation. Since Standard & Poor's decided not to include the stock in its benchmark S&P 500 index the percentage of US shareholders has dropped to 25 per cent from 44 per cent when the merger took effect last November, and the share price has languished.

Add that to the difficulties of merging two very different corporate cultures and DaimlerChrysler will be closely scrutinised in its first year of existence. Investors want to know whether it can boost profits and reap the promised €3bn ($3.2bn) in annual synergies.

The group has started on the right foot. In 1998 net income, excluding non-recurring items, rose 29 per cent to €5.22bn from €4.05bn. The group has set strict yardsticks to measure its performance – a 9.2 per cent



return on net assets (last year it achieved 11.6 per cent) – and its individual business units have been tasked with a 15.5 per cent return.

The problems at Daimler's Smart compact car and Adtranz rail systems units may offer investors an early chance to see whether DaimlerChrysler acts in line with its goals. Marketed since last October, after a six-month delay following technical problems with the two-seat car, Smart lost €141m in 1998. Adtranz – which DaimlerChrysler has fully owned since January, when it bought out partner ABB – lost at least another €100m.

Though DaimlerChrysler remains upbeat, saying development costs for Smart's next model will be considerably lower and that it will make Adtranz profitable within two years, some analysts are growing impatient. "If Daimler is serious about its [performance] yardstick, sooner or later it may have to consider shutting them down or selling them," says Klaus-Jürgen Melzner at Deutsche Bank in Frankfurt.

Those two black spots aside, the integration of Daimler and Chrysler is on track, DaimlerChrysler says. Analysts agree, saying that this year alone the group should easily achieve the planned €1.3bn in synergies through efforts such as joint purchasing, development and production projects. The most prominent example – using Chrysler's factory in Graz, Austria, to produce the M-class – should save the company €280m.

But shifting production is easy compared with the task of integrating people – a task Mr Schrempp himself has admitted could take up to five years. "It will take some time until a Sindelfingen [DaimlerChrysler factory in Stuttgart] employee will tell you that he works for DaimlerChrysler," he observed.

Departures of relatively senior Chrysler employees have also raised concerns. Chris Theodore, senior vice-president of platform engineering, and Shamel Rushwin, vice-president of international manufacturing and mini-van assembly operations, accepted vice-presidencies at Ford; and Steve Harris, Chrysler's well-regarded communications chief, switched to head the same department at General Motors.

Speculation about other departures abounds. There have been suggestions, for example, that Tom Gale, Chrysler's design chief, and Mr Eaton could bow out sooner rather than later. "We said it would be up to three years," Mr Eaton remarked recently about the planned co-chairmanship period, prompting speculation that he might be gone before the year 2001. At the Stuttgart press conference, the former Chrysler chief said he never intended to do more than help the merger get on its way.

All this appears to contrast with DaimlerChrysler's upbeat advertising campaign to promote the benefits of the merger, which featured employees from both companies. "I think people are finally realising that it was always a takeover," says one US-based investment banker who worked on the deal.

The real tests, however, are way down the road. Given lead times in the auto industry, it could be several years before it becomes clear how the two companies' design and engineering functions have meshed, and whether the more formal German approach can sustain Chrysler's flair.

The group's US-based suppliers agree. Dana, the Toledo-based axles, driveshafts and engine products business, was working for both companies before the merger. Bill Carroll, president, says that in the wake of the merger Dana made fresh presentations in Stuttgart – an idea the US company initiated, and DaimlerChrysler encouraged. "This is a very, very large programme and it's been a very, very short period of time. I think the thought process is still where it's at," he says.

Robert Eaton, left, may bow out as co-chairmen with Jürgen Schrempp sooner than expected Reuters

CZECHOSLOVAKIA BANK WARNING

Komercni says 'change law or losses go on'

By Robert Anderson in Prague

Komercni Banka, the biggest Czech bank, has warned it will continue to make losses unless the government presses ahead with its privatisation and strengthens the legal position of creditors.

Komercni last year made a record Kc9.55bn ($270m) loss last year after putting Kc21bn into provisions to compensate for the impact of the domestic recession and stricter central bank rules on collateral for its Kc53bn of loss loans (for which interest is more than a year overdue).

The bank estimates it will have to make another Kc7bn of provisions this year and Kc6.5bn in 2000 because of the new rules, before it can return to profit in 2001.

"If there is no privatisation, the bank is strong enough to fulfil its obligations, but not without this negative impact on shareholders," Jan Kollert, chairman, said in an interview.

The government wants final bids for its 49 per cent stake to be in by the end of December, and for the sale to be completed in the first quarter of 2000. Before privatisation Komercni is seeking a state capital injection to help it bear the provisioning burden.

Mr Kollert said that by the time the privatisation was advertised, next June, the government needed to clarify how much capital it planned to commit and whether it would guarantee some of its loans. Goldman Sachs, the government's adviser for the sale, has recommended a capital increase of between Kc7.5bn and Kc8.25bn.

But Mr Kollert says the government can also help by *pushing through parliament* this autumn a proposal to *allow out-of-court seizures of* loan collateral. The difficulty *in realising* real estate collateral forced the central bank last year to phase out allowing *banks to deduct it from* loan provision requirements.

Together with *plans to* make bankruptcy procedures quicker and give state assistance to selected indebted companies, out-of-court seizures would lower provisioning for the bank's loss loans, which represent 22 per cent of total loans.

"The legal framework does not allow us to realise collateral," Mr Kollert said. "Debtors are just laughing if you ask for payment." Because of the new rules, Komercni has become much stricter in giving new loans, with loan volume down 14 per cent last year, and it has helped to force management changes at some problem debtors such as Chemapol, the chemicals conglomerate, and engineering group Skoda Plzen.

> *'The legal framework does not allow us to realise collateral. Debtors are just laughing if you ask for payment'*

Mr Kollert said it was essential that Komercni cut its dependence on loan business and use new products and cross-selling to develop its fees and commission income.

"We wish to change strategy of our bank," Mr Kollert said. "In the past, the bank underestimated services for private clients and had a negative image of just granting credits to big enterprises."

He said this untapped potential in the bank's 22,000 VIP *clients and 364 branches* should make Komercni very *attractive to a big foreign* bank.

Bear Stearns announces record earnings

By Tracy Corrigan in New York

Bear Stearns yesterday announced record earnings *in its third fiscal quarter,* which ended March 26, of *$204m, up 22.8 per cent from* the comparable quarter the *previous year.*

James Cayne, president and *chief executive, said* equity and fixed income underwriting was "very strong during the quarter" and noted that Bear Stearns acted as lead manager on several initial public offerings for internet companies, *the hot sector of the IPO* market.

Sam Molinaro, chief financial officer, noted the firm had *also* won several global underwriting mandates, including multi-billion dollar deals for Ford Motor Credit Company, *following* Bear Stearns' development of its European business. Bear Stearns now has a staff of *500 in London.*

Mr Molinaro declined to *comment on whether the* European operation was *profitable, saying it was* company policy not to break down earnings *geographically.*

Bear Stearns' net earnings per share of $1.42 was substantially *ahead of* Wall Street estimates of $1.15, and *up from* $1.09 a year ago. Annualised return on equity *was 23.7 per cent, compared* with 21.4 per cent a year ago, *and revenues of $1.23bn* were up 17.1 per cent.

However, *for the first nine* months of its fiscal year, which ends in June, net income of $404m was 17.2 per cent below *last year's level,* due largely to Bear Stearn's *weak first-quarter performance.* Commission revenues, *including* Bear Stearns' clearing business, rose *8.4 per cent to $245.1m,* while principal transaction revenues reached a record $600.3m, up 32.6 per cent, *reflecting* increased customer order flow and new issue activity.

Revenues from investment *banking were up 16 per cent* to $229m, primarily due to *an increase in underwriting* activity. Employee compensation *was 48.3* per cent of net revenues for the quarter.

BUSINESSES FOR SALE

GRUPPO FIME
IS SEEKING
EXPRESSIONS OF INTEREST IN THE PURCHASE OF COMPANIES, SHAREHOLDINGS, CREDITS AND OTHER ASSETS OF THE 'GRUPPO FIME'

1. - INTRODUCING
(a) the FIME S.p.A. companies, registered office in Roma, FIME Leasing S.p.A with registered office in Naples, and secondary offices in Roma, Milan, Pescara, Bari, Palermo, Catania, Cagliari, FIME FACTORING S.p.A, with registered office in Roma and secondary offices in Rome and Bari, for the purposes of this notice indicated collectively as 'GRUPPO FIME', are going into liquidation;
(b) the parent company FIME S.p.A. is a holding company and it owns 99.59% of FIME LEASING S.p.A stock and it holds 35% of FIME FACTORING S.p.A. stock; FIME S.p.A. has also sundry minority stakes in manufacturing and service companies;
(c) FIME S.p.A. assets are estimated at 31.12.1999 to be of 225,968,000,000 lire; FIME LEASING S.p.A. 1,082,903,000,000 lire; FIME FACTORING S.p.A. assets are expected to be equivalent to 86,669,000,000 lire;
(d) GRUPPO FIME's staff, 139 units in total, is divided as follows: FIME S.p.A. 17 employees; FIME LEASING S.p.A. 92 employees; FIME FACTORING S.p.A. 30 employees;
(e) Law no. 251, July 23rd 1998 provides that the staff of GRUPPO FIME be recruited by the Public Authority.

2. THE 'GRUPPO FIME' LIQUIDATOR, PROF. AVV. FLORIANO D'ALESSANDRO,

INVITES

all parties interested in the purchase of the entire 'GRUPPO FIME' or in parts of its assets (individual companies in liquidation; firms and divisions of the companies in liquidation; shareholdings, credits and material and non-material goods of the companies in liquidation) to inform:

Studio Legale, Tributario e Internazionale, Puoti, Rossi Ragazzi, Longobardi

which the liquidator entrusts with the organisation, co-ordination of sales, and assistance, to 'GRUPPO FIME', with the legal transaction and which, for the purposes of this notice, is designated as 'Advisor'.

3. CONTENT OF THE EXPRESSION OF INTEREST
The statement should contain.
3.1 Information by which to identify the interested party, included VAT number and tax code;
3.2 a declaration that the interest shown is exclusive and with no intermediaries;
3.3 other information deemed, by the interested party, useful in order to show economic and financial potential and honourableness in view of the planned acquisition. This, however, should not exclude the right of the liquidator to ask the interested party, even at a later date, further clarifications and/or certification;
3.4 the explicit acceptance of Italian law and of Italian jurisdiction only, 'Tribunale di Roma' being the competent jurisdiction, for all relations following the expression of interest;
3.5 a statement declaring that the invitation has been read and examined, accepted in all its parts;
3.6 a commitment not to divulge any information, be it written or verbal, transmitted to the interested party by the Liquidator, Advisor or GRUPPO FIME, to a third party that is not collaborators, employees or self-employed involved in the operations connected with and deriving from the expression of interest.

4. DEADLINE AND FORWARDING OF THE EXPRESSION OF INTEREST
The statement containing the expression of interest should be addressed to;
4.1 Studio Legale, Tributario e Internazionale, Puoti, Rossi Ragazzi, Longobardi in Via Panama 68, Rome, 00198 by registered letter, sending fax as warning of delivery on the same date. The Advisor can be reached on the following special number: 00 39 06 85301398, 00 39 06 85301404-5 (fax);
4.2 and it should be sent by 30th April 1999. The Liquidator reserves the right to consider expressions of interest or offers arriving later than the dates indicated in this invitation

5. INFORMATIVE STAGE AND DEPOSIT
5.1 It falls to the Liquidator to take the decision, that is unappealable, to start negotiations with one or more subjects who will have sent their expression of interest according to the above mentioned points 3 and 4,
This decision, whether positive or negative, will be communicated in writing to the interested parties within seven working days from receipt of registered letter as in point 4. In the former case, the chosen interested parties will receive:
a) a factsheet containing information that the Liquidator deems relevant for the purposes of the sale or sales here considered, for which an interest has been expressed according to the form laid out in this invitation;
b) further information when a specific request is put to the Advisor.
The informative stage will be from 13th April 1999 to 11th June 1999.
5.2 The Liquidator reserves the right to require that the interested parties or some of them put down the sum of 300,000,000 lire in guarantee in a bank book in the name of FIME S.p.A. in liquidation. Said deposit will be tied-up until 19th July 1999.
5.3 The deposit will be redeemed:
a) before 18th June 1999 should the interested party inform us of their decision not to make an offer;
b) on 18th June 1999, should no offer arrive from a party that expressed an interest;
c) on 19th July 1999 should the Liquidator refuse the offer.

6. INDICATIVE OFFERS AND GUARANTEE
Once the informative stage is over, the interested parties admitted to stage sub 5 will be able to make their offers, by 18th June 1999:
Offers:
6.1 will need to specify price and contractual terms;
6.2 will need to contain a statement announcing that the offer is exclusively one's own;
6.3 will need to be irrevocable until July 19th 1999 and contain a declaration that the offering party has received all the information for the purposes of evaluating the purchase;
6.4 will need to contain a declaration that there are no legal, administrative, contractual obligations preventing the purchase.
The Liquidator reserves the right to request from the offering party a first demand guarantee issued by a leading bank guaranteeing that the obligations deriving from the offer be integrally fulfilled.

7. CONCLUSION OF PURCHASE
The convenience of offers will be evaluated by the Liquidator, with unappealable decision, for the best realisation of GRUPPO FIME liquidation.
The Liquidator will communicate to those admitted to stage sub 6:
7.1 the acceptance of the offer with invitation to appear before a notary public who will be designated by the Liquidator for the conclusion of the sale;
7.2 or the non acceptance of the offer suggesting negotiation in order to reach a possible agreement;
7.3 or the refusal of offer,
Having examined the offers received, the Liquidator also reserves the right to compare them for competitive purposes, according to whatever form the Liquidator deems appropriate in order to choose the most convenient.

8. FINAL SPECIFICATIONS
8.1 The expression of interest as in sub 2 entails the unconditional acceptance on the part of the interested party of all the clauses contained in this invitation towards which no complaint or appeal may be raised;
8.2 Any expense or onus, including possible fees to practitioners that the interested and/or offering party have commissioned will rest entirely with the offeror;
8.3 This notice does not constitute an offer to the public according to art. 1336 Italian civil code or solicitation of public saving ex art. 1/18 Law June 7th 1974 no.216 and later modifications and integration;
8.4 The information sent by those parties expressing an interest will be used solely for the purposes of this invitation and will be erased following a simple request by the interested party (articles 10, 12, 13 Italian law no. 675/1996).

ROME
FIME S.p.A. in liquidation • FIME LEASING S.p.A. in liquidation • FIME FACTORING S.p.A. in liquidation
The Liquidator • Prof. Avv. Floriano d'Alessandro

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For further information, please contact David Wilson or Ian Lester of PricewaterhouseCoopers, 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL. Tel: 0191 232 8493. Fax: 0191 261 7353.

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For further information please contact the Joint Administrative Receivers: Kim Rayment or William Tacon, Ernst & Young, One Colmore Row, Birmingham B3 2DB. Telephone: 0121 232 4151.

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Fitter future for Ford as Nasser takes the driving seat

Car group has its sights set on becoming a consumer business, says **John Griffiths**

Jacques Nasser, Ford's president and chief executive since the beginning of this year, wants to do more than make Ford the world's leading automotive company – his ambition is to make it the leading consumer services business. The planned £1bn ($1.6bn) takeover of Kwik-Fit, the UK automotive after-market group, is one of his first significant steps towards achieving that aim.

Provided Kwik-Fit shareholders do not balk at the all-cash deal – regarded as highly unlikely by analysts – Ford should at a stroke gain access to some of the most valuable parts of the UK automotive market that until now it and its dealers have not been able to reach.

If all goes according to Mr Nasser's vision, the structure Ford is putting in place in the UK to tap all sectors of the after-sales market covering servicing, repairs, replacement parts and even insurance will then be exportable, first to continental Europe, then emerging markets round the world from central and eastern Europe to Latin America.

The one region where Ford is resigned to it not working – at least not without making other acquisitions that would dwarf Kwik-Fit – is in its own backyard of North America. Competition from established automotive independents such as the Sears group and Midas is simply too tough, Ford executives acknowledge.

Ironically, some analysts believe that by buying Kwik-Fit, Ford is implicitly acknowledging the partial failure of efforts by its own UK dealer network to compete effectively with well-managed independents.

Nor is it alone among manufacturers. General Motors, with Master-Fit, and several other big carmakers have launched an assortment of fast-fit and other after-market service programmes aimed at retaining or attracting customers who desert the service premises of franchised dealers the moment their new car warranties run out, or who typically buy and run cars more than three years old. Successive surveys indicate that both types regard franchised dealers as much more expensive and less service-oriented than large, specialised independent aftermarket operators such as Kwik-Fit.

Ford's own figures show that its franchised dealers have only 27 per cent of the potential after-market business for Ford models, and that once a Ford is three years old or it passes out of company ownership to a private buyer, franchised dealers lose sight of it as a source of revenue for servicing and replacement parts.

In the mid-1990s Ford launched Rapid-Fit, its first scheme aimed at extending the reach of its dealers' service operations. These were fast-fit operations similar in concept to Kwik-Fit, owned by Ford dealers but in separate premises. The original concept envisaged Rapid-Fit eventually opening the door to the market dominated by Kwik-Fit: primarily buyers and users of cars more than five years old, 80 per cent of whom – crucially from Ford's point of view – are not Ford owners.

Jacques Nasser: plans to create an exportable structure Reuters

Rapid-Fit has given Ford some success, with cars up to five years old increasingly using the outlets. But scepticism about manufacturer-driven after-market operations remains widespread among the type of customer that Kwik-Fit serves. Ironically, this is in part because of the very tactics used by some manufacturers to win back business from the independents.

Swingeing cuts by BMW, Volvo and others in replacement parts prices, specifically to attract drivers of their older models, have occasionally aroused suspicions that franchised dealers are charging excessive margins on components compared with independents.

But the roughly 2,000 outlets owned by Kwik-Fit will give Ford a dominant position in the UK fast-fit after-market, and a presence almost the length of the sales and service chain from showroom to scrap yard.

Ford's plan is to replicate this structure progressively through Europe and beyond. It can contemplate doing so because the after-sales and service markets in most of continental Europe are much more fragmented with few chains and none of a size or efficiency to match Kwik-Fit. SMK Speedy International, the continental European chain Kwik-Fit bought last year, is among the leaders, with 375 outlets in France, 24 in Belgium and three in Spain.

"There are tremendous opportunities to utilise Kwik-Fit skills across Europe," says Ian McAllister, chairman of Ford of Britain.

And the acquisition is in turn part of a still broader strategy.

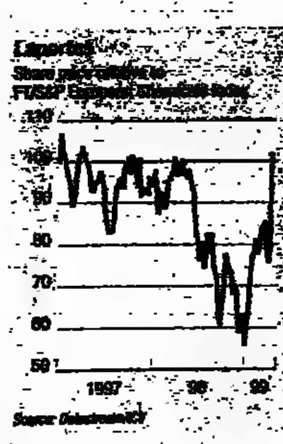
Increasingly, Ford has also been acquiring dealerships. The intention is that more of the total revenue that can be derived from automotive manufacturing, sales and services goes into its own pockets. This is in line with the twin targets set by Mr Nasser of a 5 per cent return on sales – volume vehicle manufacturers typically manage 2 per cent – and 7 per cent annual revenue growth. Kwik-Fit, with its operating margin of 12.5 per cent last year, gives an indication of the potential he wants to tap into.

Under Mr Nasser's vision, Ford will measure itself against world-class consumer businesses in whatever business they operate, rather than the traditional yardsticks of rival automakers.

"The whole pitch is to get much closer to the consumer than the average automotive company," says Andy Eggleston, principal consultant at AT Kearney's automotive practice.

COMMENT

Laporte



So is it fermez Laporte? One of the UK's more successful chemical companies has announced it is in takeover talks, after weeks of rumours. The bidder is coy, but Swiss-based Clariant looks the obvious candidate. Since the collapse of its own merger talks with Ciba, it has made no secret of wanting to bulk up its fine chemicals operations. Laporte would fit the bill nicely. And Jim Leng, chief executive, has knocked the business into shape, selling a range of businesses from pet litters to wine corks and cutting more than 1,000 jobs. Margins have jumped, as have returns on capital. Laporte's acquisition of Inspec means it now deserves the "speciality" tag and brought with it valuable marketing and research and development teams.

Of course, consolidation in speciality chemicals can backfire, since the value lies in pricing power, not in the economies of scale available in commodity chemicals. But a Clariant acquisition of Laporte would make sense by extending the former's portfolio. What of price? Laporte's share price chart looks ugly, but this management will be no push-over. Even with the near 30 per cent leap in the shares to 762½p, Clariant may have to cough up 800p or more to win a board recommendation. That would be punchy, valuing Laporte on about 16 times forward earnings. Clariant shareholders should demand to know why their management did not swoop when Laporte was languishing at 400p last October.

Dixons/Freeserve

With rivals like the Sun's Currantbun.com pouring into the market, Dixons is probably right to consider spinning off Freeserve, the grandaddy of free internet service providers. Backing out the 900p a share attributable to Dixons' electrical shops, the market is now valuing Freeserve at a staggering 664p a share, or £2.9bn ($4.66bn). Not bad for a company with more than 1.5m customers but not much else.

Nor is Dixons the most obvious owner. In the long term, it does not have the marketing reach of newspapers and television channels – likely to become keen rivals. A full sale is ruled out and a demerger is unlikely to add much value at these levels. But floating a 20 per cent stake would make sense. Dixons shareholders could realise some equity at today's supercharged values, and investors get access to the UK's first large pure internet play.

Dixons considers sale of Freeserve stake

By Peggy Hollinger

Shares in Dixons, the UK's largest electricals retailer, yesterday hit an all time high as the group indicated it was considering selling a minority stake in its Freeserve internet service.

John Clare, Dixons chief executive, said Credit Suisse FirstBoston and Cazenove had been appointed "to explore the strategic alternatives available to enable Freeserve to realise its full potential".

He said this could include a potential initial public offering of a minority interest in what was the first service to offer free access to the internet in the UK.

Dixons shares jumped 114p to 1564p, the biggest percentage rise in the FTSE 100 index of leading stocks, reflecting the market's obsession with internet investments. It is thought Dixons is keen to realise value out of this enthusiasm, having seen its own shares jump by 85 per cent since the beginning of the year.

Since its launch in September, Freeserve has become the UK's largest internet service provider, with more than 1.5m subscribers. The service has been credited with revolutionising internet usage in the UK, which at 14 per cent of the population is less than half that achieved in the US.

Analysts said Freeserve could be valued at more than £2.5bn ($4bn) if Dixons opted for a partial flotation.

British Land in £1.5bn securitised bond issue

By Khozem Merchant

British Land, the UK's second biggest property company, is to launch the largest ever European property securitisation bond, a £1.54bn ($2.47bn) issue securitised on the rental income of 13 properties at the Broadgate Centre in London.

The deal, which includes prime properties such as the headquarters of the European Bank for Reconstruction and Development in Bishopsgate, will dwarf the previous biggest issue, last summer's £555m deal involving sites at Canary Wharf.

The bond will comprise several tranches of sterling-denominated medium- and long-term fixed rate eurobonds and will be launched after a roadshow held over the next few weeks. Morgan Stanley Dean Witter, the US investment bank, has been awarded the mandate.

The proceeds of the bond will be used to refinance the company's bank's debt of about £1.2bn, and secure cheaper, long-term financing.

Part of the debt has arisen following British Land's flurry of acquisitions, totalling some £800m, in recent months. "This bond funds those purchases long-term and more than restores our liquidity," said John Weston Smith, finance director at British Land.

Analysts said the refinancing will reduce British Land's cost of funds (the interest it pays on debt) from 8.49 per cent to about 7.4 per cent. This will provide savings of at least £20m this year alone. The company will incur a one-off charge of some £68m in the year to March 1999 relating to the deal.

British Land, which has some £7bn of property under management, owns 13 of the 15 buildings that make up the 3.7m sq ft Broadgate complex, home to some of the City's biggest financial houses. One property, at 135 Bishopsgate, a 360,000 ft sq property, is excluded from the bond issue because it has already been securitised.

The bond is expected to be rated at between AAA/Aaa and BBB/Baa2 by the main rating agencies, largely on the strength of the receivables – the cash flows from rentals and leases that will be used to repay the bond.

Diageo prepares to dispose of Spanish link

By John Willman

Diageo yesterday confirmed it was ready to sell its 89 per cent stake in Cruzcampo, Spain's largest brewer, and invited potential purchasers to make formal offers.

The food and drink group said it had received several approaches for Cruzcampo, which has 26 per cent of Spain's beer market and is dominant in the Andalucian region.

The announcement came amid reports that Heineken, the Dutch brewing group, was close to buying Cruzcampo to merge it with its El Aguila operation, Spain's third largest brewer with 17 per cent of the market.

Heineken, which declined to comment, has repeatedly said it wanted a larger share in Spain, comparable with its position in countries such as France and Italy where it has more than a third of the market. But many analysts believe Heineken would prefer to buy Mahou, the number two Spanish brewer which is jointly owned by Danone, the French food and drink group, and two families.

Other candidates include Carlsberg, the Danish brewer, Interbrew, the private Belgian company, and Damm, a Catalan brewer based in Barcelona. Carlsberg already owns 10 per cent of Cruzcampo, which distributes its lager in Spain.

There was also talk that financial buyers could enter the field, since brewing provides a steady income that can service debt. Nomura International, the Japanese investment bank, controls the largest brewing group in the Czech Republic, which it created by merging two smaller companies.

The Spanish brewer was originally acquired by Guinness, one of the two groups that merged to form Diageo in 1997. At the time it was the most profitable brewer in one of Europe's fastest growing beer markets, but beer consumption peaked in 1990 and profits plunged.

Cruzcampo had sales of Pta65bn ($420m) last year with profits estimated by analysts of about £30m. Analysts expect it to fetch more than £350m, above the £225m goodwill on Diageo's balance sheet but well below the 1991 purchase price of Pta98bn (then worth £533m).

Laporte talks prompt Swiss bid speculation

By Virginia Marsh

Laporte, the UK fine chemicals group, revealed yesterday it was in preliminary takeover talks, with the possible bidder understood to be Clariant, the Swiss speciality chemicals group.

The UK group was obliged to announce it was in talks after its shares rose 13 per cent in early trading.

The shares closed up 172p, or 29 per cent, at 762½p, after speculation that Clariant was preparing a bid at about 800p.

On yesterday's price, Laporte has a market value of £1.48bn ($2.38bn). It also has some £550m of debt, following its purchase of Inspec, its smaller UK rival, for £611m last year.

Laporte, which is being advised by Lazards, said only that it was in "discussions with regard to a possible offer being made for the company".

Neither Clariant or Laporte would comment further.

A tie-up between the two groups has long been suggested in what would be latest move towards consolidation in the UK chemicals sector.

The speculation has intensified following the collapse of Clariant's planned merger with fellow Swiss concern Ciba to create the world's largest speciality chemicals group last December.

Since then Clariant, which is to present 1998 results and first quarter sales figures on Friday, has pledged to use its strong cash flow to expand its fine chemicals operations through acquisitions.

Clariant and Laporte are leaders in the production of high margin chemicals used by the pharmaceutical, agrochemical and electronics industries.

Dresdner Kleinwort Benson said a deal would be earnings enhancing for Clariant – which also makes dyes – at up to 850p a share. On DKB's forecasts, a price of 800p would represent 10.1 times Laporte's 1999 ebitda.

This compares with the 13.3 times ebitda Ciba paid in its £1.42bn takeover for Allied Colloids of the UK early last year.

Ciba is widely seen to have overpaid but the deal marked the beginning of a spate of takeovers in the UK sector. These include Akzo Nobel's £1.83bn acquisition of Courtaulds and bids this year for Albright & Wilson and Kalon.

Shares in the UK sector have fallen sharply in the past year mainly because of the problems caused by the strong pound, the slowdown in UK manufacturing and the Asian economic crisis.

Although Laporte has been one of the sector's best performers, its shares are down from 871½p in mid-1998 and fell to below 400p last October.

US delay for Medeva drug

By David Pilling

Medeva yesterday received a blow to near-term earnings prospects when US regulators requested additional information on Hepagene, a hepatitis B vaccine for which the emerging pharmaceutical company has great hopes.

Medeva's share price yesterday fell 12½p to 108½p, although the company stressed it was still confident that the clinical merits of Hepagene would be recognised. The application for European approval appeared to be going smoothly, it said.

Medeva needs earnings from new products to replace the steep loss in sales of methylphenidate, its best-selling treatment for hyperactivity. Methylphenidate has come under severe pressure from generic competition.

The US Food and Drug Administration yesterday requested more data on the trials and questioned the number of people in the clinical database.

Medeva said it would have to wait until its May meeting with the FDA to discover if a further trial would be required.

GE Invests supports Electra

By Katharine Campbell

GE Investments, which manages pension fund money for General Electric of the US, will vote in favour on Thursday of the reconstruction plan put forward by Electra Investment Trust, the venture capitalist facing a hostile £1.3bn ($2bn) bid from rival 3i. Most institutions have remained coy about their intentions ahead of the extraordinary meeting which is likely to decide the fate of Electra in its defence against the bid. However, one analyst said yesterday it would be "a big surprise" if Electra secured the 75 per cent of votes it needs to pass the proposals. 3i has indicated it will drop its bid if Electra's plan is passed. Electra wants to buy back 40 per cent of its shares at 786p, and sell its remaining assets. GE Investments, which has 2.4 per cent of Electra, also has about £70m-£80m managed by Electra Fleming, the trust's manager.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bond Intl Software Φ	Yr to Dec 31	8.81	(6.4)	0.935	(0.718)	4.54†	(4.95)	-	-	-	-	-
Century Inns	6 mths to Mar 31	25.5	(25.2)	4.89♥	(4.54)	8.5	(6.8)	nil	-	2.4	-	7.7
Christie Group	9 mths to Dec 31 ◆	24.5	(25.6)	2.13	(1.6)	5.87	(4.68)	2	June 16	1.5	2	1.5
Dragons Health Φ	6 mths to Jan 31	4.64	(3.33)	0.6	(0.349)	4.6†	([illegible])	1.05	May 21	0.95	-	2.5
Longbridge Intl Φ	Yr to Dec 31 ★	5.65	(4.18)	0.712	(0.533)	11.77†	(11.15)	[illegible]	July 5	3	5.5	5
McInerney €	Yr to Dec 31	80.94	(66)	6.98♥	(4.26)	35.51	(12.88)	-	-	-	2.16	1.27
Petra Diamonds Φ	6 mths to Dec 31 ☆	0.067	(0.26)	0.888L	(2.49L)	2.563L	(8.36L)	-	-	-	-	-
Riva	Yr to Dec 31	80.1	(70.2)	0.403♠	(1.34)	0.1L	(2.2)	nil	-	nil	nil	nil
Servomex	Yr to Dec 31	31.2	(34)	1.78L♠	(2.95)	22.9L	(20.3)	nil	-	[illegible]	2.85	[illegible]
Wardle Storeys	6 mths to Feb 28	55.5	(58.3)	5.34	(5.38)	14	(14)	7.5	July 1	7	-	22
Yorkshire Group	Yr to Dec 31	57.6	(111.1)	1.59♠	(26.3♥)	1.8	(40.9)	6.55	June 11	6.55	9.6	9.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ΦAim stock. †On increased capital. ♠After exceptional charge. ♥After exceptional credit. ◆Comparatives for year to March 31. ★Comparatives restated. €Euros. ☆Comparatives for 15 months to June 30.

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TUSCANY

TUESDAY APRIL 13, 1999

A region leaning to the future

Officials must balance tourism development and industrial growth, says **Paul Betts**

The news, a few weeks ago, grabbed the headlines, not only in Tuscany and Italy but all over the world.

The leaning tower of Pisa, announced the committee set up to safeguard the symbol of the country's most celebrated region – cradle of the Renaissance, source of the Italian language, and now mecca of contemporary cultural tourism – was leaning a little less.

Not by much. A mere 1.5 millimetres. But nonetheless significant for an extraordinary work that tilted almost immediately when it was constructed in 1173 because of the high water table underneath it.

The tower was closed to the public early in 1990 because of security fears. Intensive efforts were launched to prop it up. Michele Jamiolkowski, head of the project, now hopes four more millimetres can be gained before the start of a second phase of excavations to stabilise the tower.

Like its precious tower, Tuscany too has been straightening itself up.

After a particularly difficult transitionary period in the late 1980s and early 1990s, when it was caught up with the rest of the country in Italy's climate of political and economic instability and suffered heavily from the withdrawal of state subsidies and the decline of large state sector industries, the region is now performing better than the national average.

"Our growth last year was 1.8 per cent against a 1.4 per cent rise in the country's GDP," says Vannino Chiti, president of the region.

An influential member of the former Communist Democrats of the Left party of prime minister Massimo D'Alema, Mr Chiti quickly warns that this encouraging performance was still not sufficient to create jobs.

"We need 3.5 per cent annual growth to create new employment," he says. "But for the first time in this decade the unemployment rate in Tuscany has fallen below 8 per cent to 7.7 per cent compared with the national rate of 12.3 per cent."

The official figures, as always in Italy, do not tell the full story. In Tuscany they are even more misleading because of the highly diversified character of the region and the way in which economic activity is dispersed and concentrated in its various provinces.

At Massa Carrara, the coastal area most badly hit by the disappearance of Italy's traditionally benevolent state interventionism and the decline and restructuring of large state sector industries, unemployment is still at a high of 15 per cent.

Further down the coast at Livorno the unemployment rate is 12 per cent, although Tuscany's principal port has in recent years recovered strongly. It has become the fifth largest container port in the Mediterranean and has ambitious plans to attract cruise ships. The old state shipbuilding yards have been taken over in a management buy-out and are operating again in profit.

Other areas of the region continue to be economically vibrant. Unemployment at Arezzo, a traditional goldsmith centre with high export performance, is a mere 3.8 per cent.

The metropolitan districts of Florence, Prato and Pistoia down to Pisa remain examples of what has become known as the "Italian economic miracle", a high concentration of small and medium-sized businesses, many still craft industries employing a handful of workers, that form the backbone of the country's strong export performance.

In terms of textiles, clothing, high fashion, leather goods and machinery, they continue to form a remarkable economic network.

"We are a country of small industries," says Ginolo Ginori Conti, president of the Florence employers' association Assindustria Firenze.

"In our district, 90 per cent of our companies employ no more than 50 people. Only one or two companies employ more than 2,000."

The region has also had to fight to preserve its small nucleus of large industries. A few years ago when Piaggio, the scooter manufacturer and one of the region's single largest employers, threatened to move south to take advantage of government subsidies to attract investments in the depressed south of the country, Mr Chiti moved his office from Florence to Pontedera, Piaggio's headquarters near Pisa.

"It was a crucial battle which we could not afford to lose," he says. Piaggio is still at Pontedera, employing about 5,000 people, and after extensive restructuring returned to profit last year.

Along with art and commerce, agriculture has been a traditional pillar of the region. It suffered a decline in the postwar years with the migration of the younger generation to the towns and cities and a series of ill-conceived state interventions.

Agriculture is again enjoying a revival of sorts in Tuscany. "Young people are beginning to go back to the land," notes Mr Chiti.

The development of agritourism to provide farmers with an additional source of income has also taken off.

New generations of traditional wine producers have raised both the quality and profile of Tuscan wines.

Tourism, too, continues to grow. Barely a decade ago 800,000 people visited the Uffizi gallery in Florence every year. Today, there are more than 1.4m. The region is second only to the Veneto and Venice in terms of numbers.

The big issue remains the transport infrastructure, which is also a handicap to industrial and commercial development. However, there are signs that long overdue projects are about to be realised.

Planned privatisation is expected to become an impulse for the development of Pisa, the region's main international airport.

"Some people describe Tuscany as the south of northern Italy and the north of southern Italy," says Mr Ginori Conti. What is important is that the region should establish its role and own identity in the centre.

There has at times been a temptation to transform the region and its considerable tourist attractions into a "Disneyland of the Renaissance," as Mr Ginori Conti puts it. But the region and local officials appear aware of the risk and are anxious to ensure a balance between tourist development and broader industrial growth.

Tuscany recently introduced its own "Made in Tuscany" trade mark to protect the quality, reputation and image of its products as well as its extraordinary landscape and artistic heritage.

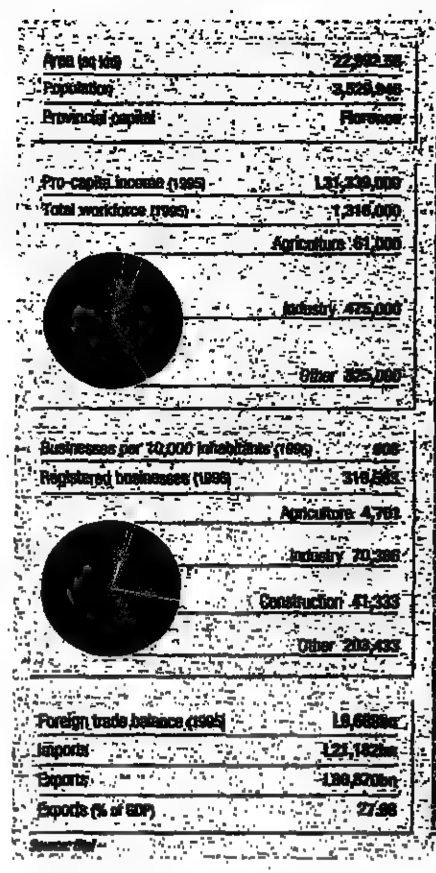
Mr Chiti emphasises the often forgotten fact that Tuscany is among the most advanced Italian regions in terms of embracing new information technology and that it is attracting an increasing number of advanced scientific ventures.

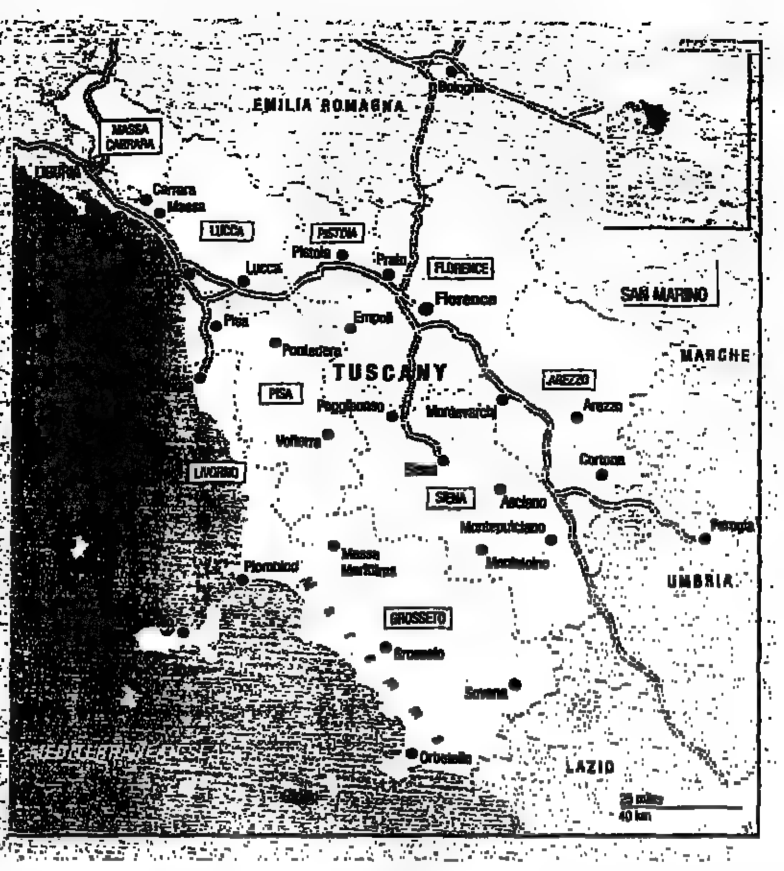
Tuscany two years ago was the first Italian non-autonomous region to have its debt rated by Moody's. It was assigned an Aa3 rating for a senior unsecured 15-year L415bn loan facility.

At the time the US ratings agency said the rating "reflects Tuscany's stable economic and political climate, its prudent fiscal management and its sound financial position".

During the past two years Tuscany has continued to perform better than the national average. Its exports have also increased at a higher rate than those of the rest of Italy, including the rich regions of the northeast.

Like the rest of Italy, it is facing numerous new problems and pressures related to the country's entry into the euro and the world economy at large. Like the tower of Pisa, it appears to be rising to the challenge.





POLITICS by James Blitz

Shades of red start to fade

Memories of the partisan years allowed the left to dominate the region

Tuscany has long been famed for being the red-belt of Italy's political landscape. The region was dominated for decades by the once mighty Italian Communist Party (the PCI). Today, it is still one of the main strongholds in Italy of the Communists' heirs, the Democrats of the Left (DS), led by premier Massimo D'Alema.

But in recent times, the left has found itself coming under a little more pressure in the region. Its hegemony is far from being in doubt. But recent events – including a sudden decision last week by the centre-left mayor of Florence to stand down at June's local elections – have exposed growing division among the region's political leaders.

The roots dug by the PCI in the region are still strong. In the war years, Tuscany was one of the main redouts of the partisan movement, its countryside a hotbed of resistance that gradually rolled northwards the frontiers of Fascism and Nazism.

The memory of the partisan years allowed the left to dominate the region for half a century. The old PCI was kept at arms length by the Christian Democrats from entering national government in Rome. But there were parts of Tuscany in which the PCI could command as much as 70 or 80 per cent of the popular vote, giving it a powerful grip on local government.

Recent events have underlined that strength. One indication came in the autumn of 1997 when Antonio Di Pietro, the popular ex-Milan magistrate, was invited by Mr D'Alema, the then leader of the DS, to be his party's candidate in a senatorial by-election in Tuscany's Mugello district.

Mr Di Pietro is a wild card of Italian politics, a man whom many on the left view with suspicion as a rootless politician whose natural political tendencies veer towards the right. Yet the sheer strength of the DS party organisation in the Mugello delivered Mr Di Pietro a stunning election victory, even if the candidate himself was far from being to local tastes.

The left's strength can be gauged elsewhere. The DS was strong enough to secure victory in Tuscany's regional assembly elections in 1995 without relying (as has been the case elsewhere in Italy) on support from the more extreme Refounded Communists. Mario Primicerio, the mayor of Florence was elected at the head of a centre-left coalition the same year with some 61 per cent of the vote.

Yet difficulties now seem to be occurring. Two of Tucany's main city halls – Grossetto and Lucca – have recently gone over to right wing control for the first time in living memory.

In Florence, the decision by Mr Primicerio, the mayor, to stand down follows months of faction fighting within the coalition of centre-left parties which he has led for the past four years. The DS now has to find a candidate to lead the coalition and initial indications are that it will not be easy.

These problems for the left in Tuscany are part of a broader series of difficulties. First, the DS is facing problems on a national level. Although the party was the core of a centre-left coalition which took Italy into the single currency last year, economic growth (in Tuscany as in the rest of Italy) has been sluggish ever since the DS coalition came to power.

Second, Mr D'Alema, who became premier after a political crisis last October, has been through an agonising five months leading a thoroughly ill-assorted government coalition.

His personal popularity dipped for the first few months of this year. He has faced a barely-concealed challenge for the leadership of the centre-left from Romano Prodi, the ex-christian democrat whom he replaced last autumn. Mr Prodi's recent appointment as president of the European Commission has not removed totally the threat that he could stand for a new left-of-centre political party in June.

Third, there are signs in Florence that the centre-left has created difficulties for itself by imposing crushingly tight budgets on many town halls as part of the drive to get into Emu.

Mario Primicerio, mayor of Florence, will stand down at the next election (left), and Vannino Chiti, President of Tuscany

Prior to his decision not to stand again as mayor of Florence, Mr Primicerio said central government cash transfers to the town hall had plunged some 30 per cent in the time he has been in office.

Vannino Chiti, the President of the Tuscan region, was more upbeat, claiming that the government has recently made strong commitments to improve infrastructure spending. He was also pleased that, from next year, the regional government would have more control over some of the taxes that are levied in Tuscany. But he too admits that non-investment spending has been slashed.

None of these concerns should be exaggerated. Tuscany is not seeing the broad political upheaval on the centre-left that is currently occuring in nearby Emilia Romagna, where Mr Prodi has his home base and has led a revolt against Mr D'Alema and the DS.

But Mr Primicerio's sudden withdrawal from the political scene is one more sign that the mood in the Tuscan red-belt is uneasy – and that must say something about the state of the left in Italy as a whole.

PROFILE RICHARD-GINORI

Figuring on a brighter future

Renowned for its 18th century porcelain designs, the company continues to try to develop the elite end of the market

Richard-Ginori, the world-famous manufacturer of porcelain tableware, is getting ready to expand.

For most of this decade the company, based in the suburbs of Florence and founded in 1735, has been through a complex restructuring, including a change in its ownership just two years ago.

But, after much uncertainty, prospects seem brighter. The company has been making steady profits for the past two years. It has just begun to be quoted on the Milan stock exhange after floating 20 per cent of its share capital last December.

"After a period in which we were looking inward and sorting out our problems, we now have the confidence to start thinking about developing ." says Vittorio Veneziani, the group's managing director.

The Richard-Ginori brand is at the top end of the tableware market, specialising in classical dinner services. Its flowery patterns, rustic scenes and refusal to compromise with *avant-garde* tastes have long been the hallmark of a tableware that smacks of the Tuscan 18th century. Many of the patterns on its crockery go back 200 years.

For all that, the company is not narrow-minded. Tableware is not the only thing it does, for example. Wandering around its massive production plant at Sesto Fiorentino, one quickly comes across dozens of large porcelain figurines of Pope John Paul II, all ready to commemorate Rome's jubilee year which starts on December 24.

"We have just got the special warrant to produce them for the event," says Mr Veneziani.

Nor is the production of tableware confined to conveyor belt processing. For sure, its factory depends on lines of men and women applying mass-produced motifs to decorate porcelain that is then reprocessed at temperatures of hundreds of degrees.

But in one corner of the factory a small group of male and female artists, trained at Ginori's school, is delicately painting miniature scenes on to freshly varnished porcelain plates and cups, ready to be sold for hundreds of dollars each.

The company still feels it needs to devote some of its efforts to the elite end of the market and takes commissions for bespoke dinner services.

Yet the going has not been easy. Until the mid 1990s Richard-Ginori was consistently making losses due to over-oduction and slack management. Its then owners, the Ligresti group, began a turnround, finally selling Richard-Ginori several years ago to Carlo Rinaldini's Pagnossin group which specialises in ceramics.

The synergy between Pagnossin and Richard-Ginori has led to considerable reduction in production costs, says Mr Veneziani. The factory is now vertically integrated, with about 10 different designs promoted every year.

Problems have not gone away. The Japanese financial collapse last year led to a significant dent in exports there – the Japanese have always had a particular penchant for things Tuscan.

The company is also well behind its main European rival, Wedgwood, in terms of its presence on the market.

Wedgwood has something like five times more staff than its Italian counterpart. But the company seems to be on a sounder footing.

Mr Veneziani feels it can grow. He and his colleagues make it clear they will continue to rely heavily on the wedding list trade both inside and outside Italy.

But they also have aclear set of ambitions. They want to expand the number of brand name shops in Italy and overseas. They want to sell through other retail outsets such as jewellery shops that are willing to stock high quality porcelain.

A series of acquisitions is also under way. Last year Richard-Ginori bought France's Laure Japy for L1.5bn. If it can continue in this vein, it should be able to put its uncertain days behind it.

James Blitz

BANKING by David Lane

An institution still true to its roots

The Monte dei Paschi bank continues to be wholly owned by a foundation but is by no means parochial in its outlook

Pierluigi Piccini, Siena's mayor since 1990, needs little reminding of his city's history.

Frescoes surround his ground floor office of the Palazzo Pubblico, built between 1297 and 1342 and described as the most elegant of civic gothic buildings in Tuscany. A Madonna and Child by Il Riccio adorns the wall behind his desk.

Before moving into the offices alongside the Torre del Mangia that towers over the Piazza del Campo, Mr Piccini was an employee of the Monte dei Paschi di Siena, the city's bank.

This is no ordinary local bank, however. Like much of Siena the Monte dei Paschi, founded in 1472, is steeped in history.

Indeed, it claims to be the oldest bank in the world. Established by leaders of the Siena republic to help the poor when the city was suffering a period of serious economic difficulty, it provided loans against which they pledged their few, paltry possessions.

Pawn operations were just the beginning, and the bank soon expanded into other types of credit operation. Its links to the city of Siena were strengthened in 1624 when Grand Duke Ferdinand II of Tuscany provided state guarantees to the bank's depositors by setting aside the income from pastures (*paschi*) in the Maremma, southwest of the city, for this purpose.

Siena and the Monte dei Paschi are closely tied. "The bank has an important role in terms of employment, both direct and indirect," says Mr Piccini.

"But it is more than just a question of jobs. The Monte dei Paschi di Siena has written a significant chapter of Italy's financial history as well as the city's own past.

"Tradition has a value," he adds, recalling the fierce battle over the Monte dei Paschi's modernisation. An armistice was concluded in August, 1995, with the bank's incorporation.

Legislation had been enacted in 1990 to encourage Italy's public sector banks to spin off their banking operations into joint stock corporations.

While the capital would be owned initially by local government foundations, the law aimed at share sales and privatisation.

The city's politicians were set against such notions, and the Monte dei Paschi has trailed behind other large public sector banks. "We did not understand the strategy behind incorporation or what purpose listing would serve," says Mr Piccini.

While banks like Turin's San Paolo, Banca Nazionale del Lavoro and Italy's large savings banks are now privately controlled, the Monte dei Paschi bank is still wholly owned by its foundation.

If all goes to plan, however, this will change in June when the Sienese bank will be floated and 25 per cent of its stock sold. Nevertheless, the proprietorial mindset of the city's politicians is unlikely to shift.

The foundation will continue to own 75 per cent of the equity, and the mayor will still appoint four of the foundation's eight members. Two are appointed by Siena's provincial authorities and two by the treasury ministry.

"The Monte dei Paschi is different from other banks. It needs reference points," explains Mr Piccini.

He says that the foundation has three responsibilities. It must administer its assets and distribute funds for social, cultural and scientific projects. But it must first provide direction to the bank's management on their strategy.

"Ties between the foundation and the bank are very close," he adds.

Attachment to its roots means that 36 per cent of the Monte dei Paschi's 829 branches are in Tuscany and 46 per cent of its staff is employed in the region.

'Over recent months the bank has given a demonstration of dynamism'

"We need to be much leaner and less bureaucratic," said Luigi Spaventa when he was the bank's chairman at the end of 1997.

"Overheads are far too high. Head office staff account for almost one quarter of the payroll.

But the mayor takes exception to any suggestion that the city's bank is inefficient or parochial. "The Monte dei Paschi is no worse than any other large Italian bank," he asserts. "Moreover, staff are motivated and proud of their bank."

Luigi Fabrizi, who has been chairman since July, says that the Monte dei Paschi has been reorganising and staff numbers have been reduced through voluntary retirements and natural wastage. The bank had 11,970 employees at the end of last year compared with 12,300 a year earlier. There has been steady reduction in numbers. It employed 12,660 at the end of 1993.

"Over recent months the bank has given a demonstration of dynamism," says Mr Fabrizi who, like his three predecessors in the chairmanship during the 1990s, is a university professor.

"The acquisition of Banca Agricola Mantovana is the first of its kind in Italy."

The Monte dei Paschi won control of the Banca Agricola Mantovana, a 285-branch concern in Italy's wealthy northeast, in January.

Even the mayor thinks that the acquisition is important. "It shows that the Monte dei Paschi has a strategy," he says. Mr Fabrizi, who was born in Siena, has wider ambitions for his city's bank than buying a medium-sized provincial operation, however. The Monte dei Paschi is alone among Italy's big banks in not having a foreign partner.

"We are looking, first in Germany, for a partner to reinforce competence in corporate banking and be in harmony with the Monte dei Paschi's culture, and with whom we can exchange shares, although this requires action by the foundation," he says.

At least when signing off the accounts in his first year as chairman, Mr Fabrizi can present the foundation with a 74 per cent increase in net profit to L590bn on total assets up by 8 per cent to L119,498bn. That advance ought to keep the owners happy.

When the bank was incorporated the Monte de Paschi's foundation endowed itself with the bank's Palazzo Sansedoni overlooking the Piazza del Campo. Members thus enjoy the best view of Siena's twice-yearly *palio* bareback horse race twice a year. As favourites and front-runners fall, they may consider that spreading risk through a diversified portfolio makes more sense than betting all their stake on just one bank.

WINE PRODUCTION by James Blitz

Riches flow from a a vintage product

'Italy can achieve as much success as the French in making wines of the highest quality'

For most lovers of Tuscany wine is synonymous with the word Chianti and the huge quantities that flow down from the Tuscan hills.

But for connoisseurs the wine from this region that continues to trigger excitement – and a certain amount of debate – is the Brunello di Montalcino.

Thirty years ago the small hilltop town of Montalcino, around 40 km south of Siena, was a deserted place with among the lowest incomes per head of the Tuscan region.

Today, Brunello, the rich red wine made from the San Giovese grape, has become one of the most sought-after in the world, turning this medieval town into one of Tuscany's richest spots.

The signs of richesse are clear to see. Montalcino's Banfi vineyard, one of the main producers of Brunello, is said to be thinking about flotation on the Milan stock exchange.

A hectare of Montalcino vineyard never sells for less than L200m, well above the average for the Tuscan region.

Top wine producers, the Marchesi Frescobaldi and Robert Mondavi, and even leading companies such as the RAS insurance group, have all recently been busy buying up little pieces of Montalcino.

"Back in the 1960s there were only five or six wine growers in the area," says Daniele Cernilli, vice-chairman of Gambero Rosso food and wine magazine. "Today there are at least 130.

"Like it or not, Brunello is doing to Montalcino what white truffles are doing for the village of Alba."

Brunello has been made in the region since the early 19th century, but it was only in the 1970s that it began to gain notice. Ex-President Giovanni Leone gave a case to Queen Elizabeth on a state visit to Britain in the 1970s.

Then, in the 1980s, the scandal over methanol finding its way into low-grade Italian wines forced producers to concentrate on creating higher grade brands.

'This country has spent far too long producing wines of lower or medium quality'

Brunello today represents the very extreme of that trend in concentrated, regulated winemaking. Preciously small amounts of the stuff are produced. For every 100m bottles of Chianti sold each year, there are just 4m bottles of Brunello.

For all the thousands of hectares devoted to Italian wine production, just 1,300 are the base for the production of the ripe red wine from this area.

The makers of Brunello insist that quality control – it is one of around 20 Italian wines with the prized DOCG patent – dictates that the offering must be limited. Stefano Campatelli, of the consortium that regulates Brunello, insists the wine must mature for around five years.

"To be successful, it can only be produced in the the dry heat and soil of the Montalcino area that produces a particularly heavy and sweet grape," he says.

"Anyone who tries to produce something called Brunello in California or anywhere else may be sued."

The 130 or so winegrowers have also understood the need to co-operate with one another to ensure that quality, and prices, are maintained. Hence no one grower can produce more than a certain amount of Brunello in the region. And grapes that do not reach the required standard are not used.

But does the wine really deserve to sell at these prices or is it the product of nifty marketing ?

There is no doubt that some vintages are greatly respected in the trade. The 1955 Biondi Santi Reserve, made by the family that first started producing Brunello in the 19th century, was recently described by Wine Spectator magazine of the US as one of the 100 great wines of the century.

"The producers of Brunello shows that Italy can achieve as much success as the French"

The Wine Advocate newsletter has also given high marks in the past to Brunello vintages. But Mr Cernilli is a little reserved.

"The wines can sometimes be overpriced and others – a good Barolo for instance – offer similar quality for less money," he says.

Nevertheless, he appreciates the importance of what Montalcino has tried to achieve for the Italian wine trade as a whole.

"This country has spent far too long producing wines of lower or medium quality," he says.

"What the producers of Brunello show is that Italy can achieve as much success as the French in making wines of the highest quality – and make money in the process."

TOURISM AND GASTRONOMY by James Blitz

Region seeks big spenders who linger

Officials are concerned that the region is doing too much to attract mass tourism, detracting from the traditional charms

Tuscany is getting too popular for its own good.

For the past 30 years, the region has maintained a reputation as one of the most favoured locations in Europe for a family summer holiday, a sun-filled retirement or a trek through the museums and cathedrals of Florence and Siena.

Throughout the long hot months of August, Europe's elite continues to flock here. Tony Blair, the British prime minister, Lionel Jospin, his French counterpart, ex-German finance minister Oskar Lafontaine, a smattering of minor European royalty – all have been visitors to Tuscany in past years, trailed through the countryside by teams of paparazzi and ogled in the newspapers back home by people having more down-to-earth holidays.

You might think that Tuscany's regional government would be happy that it is such a popular centre. But it is getting worried. The region's popularity is all very well as far as local business is concerned. But increasingly, the people coming to the region are not discriminating tourists but visitors on short, low-budget holidays. They spend little money. They don't return. And they create a market for burgers, trinkets and cheap accommodation that gradually corrodes Tuscany's long-established traditions.

"If you look at the queues at the Uffizi in Florence or the number of people hanging around the Duomo at Easter or in summer you see the problem we are coming up against," says Marialina Marcucci, vice-president of the Tuscay Region. "We don't want to discriminate against anyone or turn anyone away. But it is proving difficult to maintain a certain quality of life and experience here, either for visitors or residents."

Tourism continues to be one of the main sources of income for Tuscany. Eight million people visited the region last year. They spent something like L3,000bn between them. The area is the second most visited in Italy after the Veneto. It was the only Italian region in 1998 where the number of tourists went up not down.

But as Ms Marcucci says, tourists seem to congregate in increasing numbers in just three centres: Florence, Siena or the picturesque village of San Gimignano. The visitors to these places seem to be ever more hurried, unprepared, leaving with the plain satisfaction of having "done" the Palazzo Vecchio or circled the Campo di Siena. And this, in turn, encourages the creation of shops and services that cater for budget visitors, who want low quality souvenirs and basic accommodation.

Concerns are particularly strong, for example, on the issue of Tuscan cuisine. In the heart of Florence's Duomo one can still find a popular and high quality restaurant like Cibreo, where visitors can savour the delicate, soupy flavours of traditional Tuscan cooking at a cost that, by most European city standards, is affordable.

But the restaurant's owner, Fabio Picchi, laments that it is increasingly hard to find good quality Tuscan cooking, or even good basic products, in the region. "Ten years ago, people would regularly come and enjoy a good 'bistecca fiorentina' [the region's famed t-bone steak]. But locals and tourists want shorter and more hurried lunches, so butchers are closing down and it is harder to find good quality meat."

How can Tuscany's regional authorities counter this reduction in quality? Ms Marucci says the aim is to try and get tourists to go out into the country and discover the pleasure of places like Arezzo, Sorano, Massa Maritima or areas like the Lunigiana.

Moreover, hoteliers and travel agents need to get prospective tourists to think more carefully about what they want to do on a holiday in Tuscany before they travel. "We need to get inside the heads of people and tell them a little more about what they might see and do before they come here," she says. "That way we could end up with a situation in which a smaller number of people make longer, more fulfilling visits."

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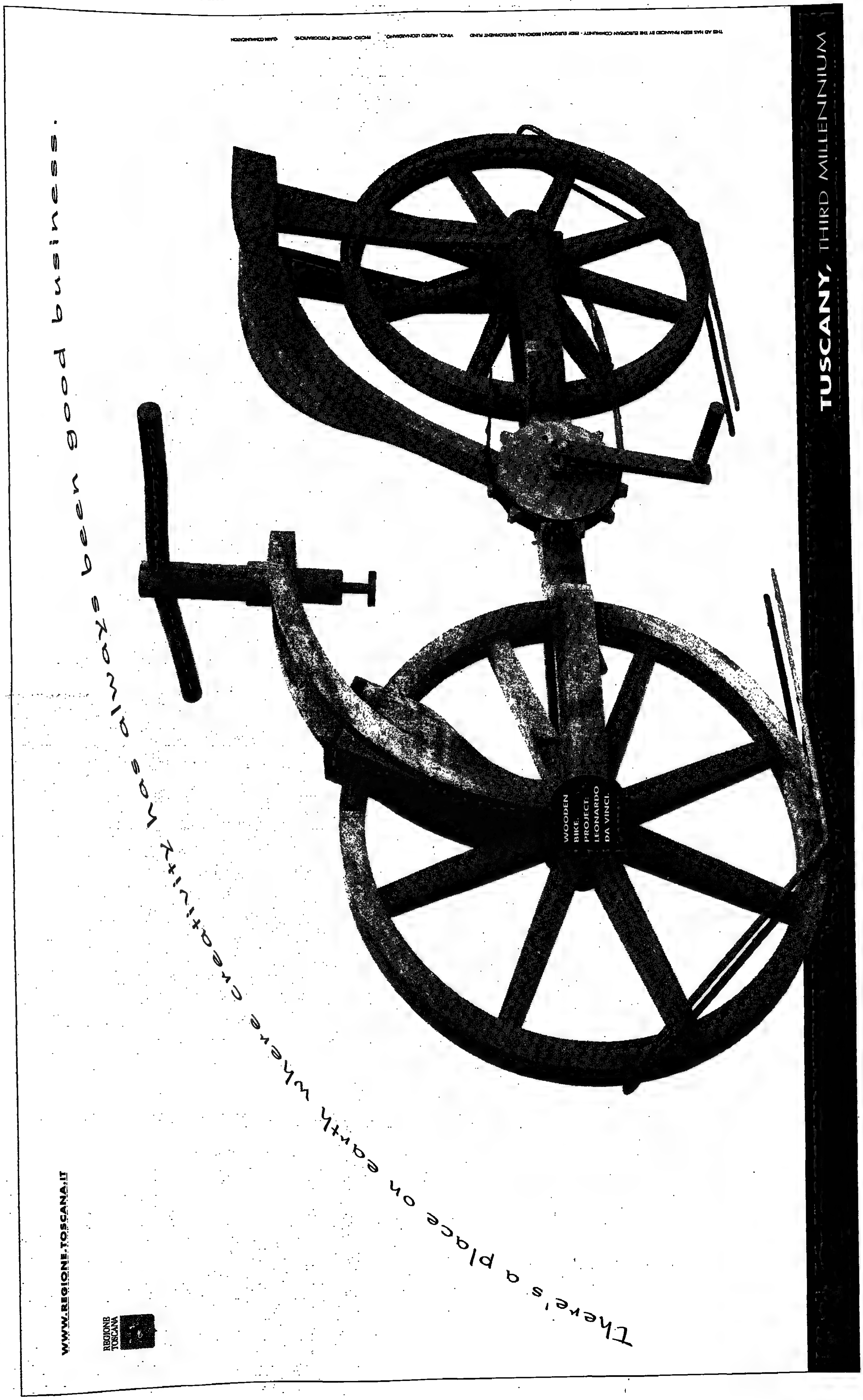


INDUSTRY by Paul Betts

Co-operation is the key

Flexibility and hard work are no longer sufficient to compete in an increasingly complex global market place

It could be Hong Kong. At Prato, an easy half hour drive from Florence, you can order a suit or any garment on a Friday evening and collect it on Monday morning from one of a thousand or so clothing businesses run by what has grown to be Italy's largest Chinese community.

"We don't know exactly how many Chinese now live here but their presence has exploded during the past two years," says Silvano Gori, a local textile manufacturer and head of Prato's chamber of commerce.

"We estimate conservatively that there must be about 15,000, and most work in the clothing business producing garments in 24 to 48 hours."

Their clothing businesses often carry Italian names, "Confezioni Maria" or "Confezioni Paola". And, although they are not integrated in Prato's long-established textile and fashion industrial system, the Chinese themselves have adapted well to life in this Tuscan city, living quietly and industriously alongside the local population.

Prato has a long history of immigrant waves and has also long been a leading textile manufacturing centre. One of the great Renaissance princes of commerce, the textile trader Francesco di Marco Datini, was a Prato native.

At the end of the second world war Prato was a city of barely 50,000 inhabitants. In the 1950s its population was swelled by the arrival of immigrants from Italy's northern region the Veneto, another traditional textile manufacturing area.

In the 1960s more immigrants arrived from the depressed south of the country. Today Prato is the third largest metropolitan area in central Italy after Rome and nearby Florence with about 190,000 inhabitants.

It is also a classic example of Tuscany's present industrial structure, made up of a dense network of small family-owned businesses, each specialised in a strongly export-orientated niche ranging from textiles, leather goods and shoes to machinery and machine tools.

Prato itself boasts the number one slot in Italy in terms of exports per capita. About 50,000 people work in its textiles and clothing sector, excluding the new Chinese arrivals. These industrial activities alone account for L9,000bn in annual sales. Of this total, 65 per cent comes from exports.

The fiercely independent, individualistic and industrious nature of the Tuscan entrepreneur has been one of the driving forces behind the postwar economic development of the region.

But, while it has been a strength of the local industrial system, it is now also becoming a problem.

Flexibility and hard work are no longer sufficient to compete in an increasingly complex global market place.

"Many family-owned companies find it hard to delegate and co-operate with others," explains Mr Gori. "But they now need to do so more and more."

To compete internationally these small companies must now learn to spread their research and development costs and their risks. "You simply cannot afford any more to do everything by yourself, producing a complete range of textile samples," he says.

"The new generations also tend to be less focused on the family business. And it is interesting to note that not a single one of our companies is listed on the stock market."

He is trying to encourage greater collaboration among local industrialists to face the problems of the recent swings and downturns in the various international markets as well as Italy's membership of the euro.

"We launched a proposal last year to set up mini-holding companies," he says. "The idea is to bring together three or four small companies, not merging them but encouraging them to co-operate by pooling together the resources to create a new venture."

Such mini-holdings are seen as an efficient way to help small companies expand in new, more promising fields such as clothing. The textile industry itself is under intense competitive pressure and many manufacturers have been moving into the clothing business which offers better returns.

"The problem for our traditional textile industry is that competition in export markets has become fierce," says Mr Gori.

Competition has also grown internally. Italy traditionally had three fashion centres, Rome, Florence and Milan. In recent years Milan has made an aggressive bid to dominate the business.

However, after long negotiations, Milan and Florence reached a compromise by splitting this high-profile and lucrative business between the two. Milan concentrated on high fashion and ready-to-wear women's clothing shows while Florence took the men's and children's wear business.

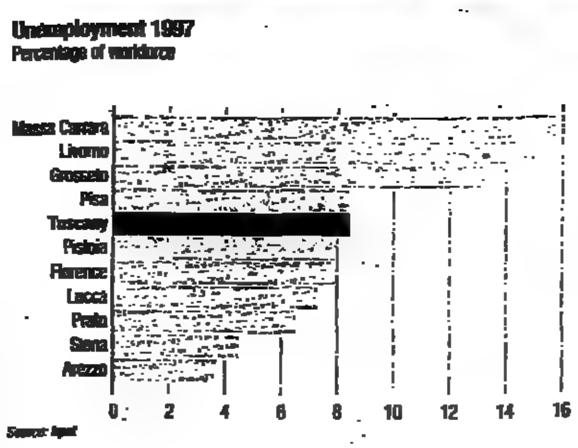
"It was quite simple," says Ginolo Ginori Conti, head of the Florence industrialists' association. "If our main fashion centres did not co-operate it would have simply played into the hands of Paris and the French."

Tuscany as a region has struggled to develop large-scale industries to balance its web of small family concerns. The central government sought to encourage the development of a heavier industrial structure by subsidising the construction of steel and chemical plants that have since been restructured, sold off to the private sector or shut down following the radical change in Rome's earlier interventionist approach to industry.

The remaining industrial flagships have also been forced to adapt to the changes in the global market. The Orlando metals group still has its headquarters in Florence but has become a pan-European company, managed in Milan, with significant operations in Germany and Spain.

Nuovo Pignone, the gas turbine manufacturer based in Florence, was sold off by the Italian Eni oil group to General Electric of the US and is now just another piece in the global industrial jigsaw of the American multinational.

Gucci, too, probably Florence's best known luxury brand, is owned by Anglo-Saxon investment funds managed in London, headquartered in the Netherlands, quoted on the New York and Amsterdam stock markets and now the subject of an unsolicited takeover attempt by the French luxury goods giant LVMH. For all this, the company remains rooted in Florence.



FASHION by Alice Rawsthorn

Battle goes to heart of area's status

The action in the corporate battle over Gucci has taken place all over the world but the saga is rooted in Tuscany

Since the start of this year, the eyes of the international fashion industry have been focussed firmly on the far from glamorous setting of the Amsterdam courthouse where the senior executives of LVMH, the world's largest luxury goods group, have wrangled publicly with their counterparts at Gucci.

The battle between Gucci and LVMH has been one of the bloodiest and most dramatic clashes that the fashion industry has seen in years. It has even shaken up the status quo among the upper echelons of the French corporate sector, because of the surprise intervention of François Pinault, one of France's wealthiest industrialists and one-time ally of Bernard Arnault, LVMH's chairman, who cast himself in a cameo role by backing the Gucci board against his former friend.

As one would expect of a modern corporate conflict, the action in the battle for Gucci has taken place all over the world. If the protagonists have not been closeted with their lawyers in Amsterdam; they have been courting the fund managers who call the shots at Gucci's institutional investors in London and New York; or making clandestine visits to Mr Pinault's opulent Parisian townhouse.

Yet the Gucci saga is really rooted in Florence, the city where Gucci Guccio started selling beautifully-made, but rather expensive leather goods from a shop on Via del Patrione in 1923. Gucci has since become a global business with one of the world's best known brand names and a $1bn-plus turnover last year, but it is still headquartered in Florence and many of its products are manufactured in the Tuscan region, not in artisanal workshops, but state-of-the-art factories.

Other Tuscany-based companies, notably Ferragamo, have also benefited from the combination of high quality products and aggressive global marketing which has turned Gucci into a $1bn-a-year concern.

Tuscany's status as one of Europe's most important fashion production centres dates back to the 13th century.

Centuries later, both Florence and Tuscany are still renowned for those traditional skills. Rome established itself as the centre of Italy's *couture* trade in the 1950s and 1960s, only to be supplanted by Milan's emergence as the showcase for the ready-to-wear sector in the 1970s, with the rise of designers like Gianni Versace and Giorgio Armani. Yet Florence still stages important exhibitions, and has nurtured such famous brand names as Gucci and Ferragamo.

Like Gucci, Ferragamo is rooted in Florence's artisanal traditions. Salvatore Ferragamo, its founder, was born in southern Italy in 1898, and trained as a shoemaker there before emigrating to the US in 1914, where he designed footwear for Hollywood stars. Frustrated by the low calibre of the shoemakers he found in the US, Mr Ferragamo started a workshop of 60 employees on Florence's via Mannelli.

When his first company went bankrupt after the 1929 crash, Mr Ferragamo began a new business, and later bought Palazzo Feroni-Spini, the 13th century building on via Tornabuoni that housed its workshop and offices. By the mid-1950s, Ferragamo employed 700 people and produced 350 pairs of hand-made shoes a day.

After Mr Ferragamo's death in 1960, the business continued under his wife, Wanda, and their six children. Today, the Ferragamo groups makes 11,000 pairs of shoes each day, and generates annual sales of around $500m from its core footwear business. It has acquired Ungaro, the Parisian fashion house, and a number of hotels, but is still headquartered at Palazzo Feroni-Spini and wholly owned by the founding family. Indeed, the Ferragamo heirs managed the transition into a second generation family company so successfully, that they have become the subject of a case study by Harvard Business School.

Unfortunately for Florence's other fashion flagship, Guccio Gucci's heirs have handled their company's affairs far less harmoniously. After years of feuding, during which the Gucci label was allowed to flounder, eventually becoming a devalued Eurotrash brand, the Guccis finally sold out between 1989 and 1993 to Investorcorp, a Bahrain-based banking group.

Having steered Gucci back to recovery, under Domenico De Sole as president and Tom Ford as chief designer, Investcorp floated the company on the Amsterdam and New York stock markets in 1995. Investcorp then took advantage of Gucci's rising share price to sell its entire stake, leaving the group with 100 per cent of its equity in public issue, and thereby prey to predators sweeping up its shares on the open market.

Recognising this threat, Mr De Sole tried to introduce a "poison pill" mechanism, but his efforts were stymied by opposition from Gucci's institutional investors. This January, the worst fears of both himself and Tom Ford were realised when Mr Arnault secretly spent $1.4bn on acquiring 34.4 per cent of Gucci, and appeared poised to try to control it as a minority shareholder.

By drafting in Mr Pinault as a "white knight", Gucci defused that threat by manoeuvring Mr Arnault into mounting a full bid. However, it now faces having to cede its independence to a French owner, thereby raising a question over the future of the skilled employees whose work has brought such stature to Tuscany's fashion industry.

PROFILE PIAGGIO

Vespa's creator is still buzzing

The company is pinning its hopes on the Indian and Chinese markets

Running about town: nowhere is the motorini more part of the way of life than in Florence

The buzz of swarms of *motorini*, scooters and mopeds weaving through traffic in narrow streets and crowded piazzas, is one of the most familiar sounds of Italian city life.

Nowhere is it more so than in Florence, where the *motorino* is part of the Tuscan capital's way of life.

This intrinsically Italian phenomenon, which has since spread around the globe, was born in the dying years of the last war only 30 miles or so from Florence in the town of Pontedera, close to Pisa.

Enrico Piaggio, whose family firm started back in 1884 and was better known for building flying boats and bombers, launched the Vespa in 1946. It was the beginning of a revolution in urban transport. The Vespa became the world's most famous scooter and increasingly in more recent years an international fashion statement.

More than 15m Vespas have been sold since and the Vespa continues to be the flagship and symbol of the Piaggio's expanded two-wheeler and light urban vehicle product line.

In a region dominated by a dense network of small and medium-sized companies, Piaggio is unusual.

It is Tuscany's largest private manufacturing company employing 5,000 people at Pontedera.

Formerly an aircraft manufacturing plant, the factory has been restructured and adapted to the highest modern automation and technology standards to produce a wide range of scooters, mopeds and motorcycles.

It is the European leader of the two-wheel sector. It produces 600,000 vehicles a year, mostly in Pontedera. It has licensing agreements in India, where a further 350,000 Piaggios are produced every year, as well as ventures in China and Taiwan.

The company has never lost its focus. As the second world war was ending Enrico Piaggio began to think about the reconstruction of Italy. His contribution was to reinvent his aerospace company into a leader in light urban mobility.

Stefano Rosselli Del Turco, the company's chief executive, insists: "We will never be a car manufacturer. If you need a full driving licence, then I don't want to make it."

Instead, the company is continuing to concentrate on two- as well as small three- and four-wheelers to address the needs of light urban transport.

The past few years have not been easy for Piaggio, being a global company without the necessary global dimension in terms of production volumes.

Competition from Japanese manufacturers intensified. Although it ranked fourth in the world market for two-wheelers, its in-house annual production of 600,000 was well short of Honda's 6m, Yamaha's 2m and Suzuki's 1m.

Handicapped by its cost base, Piaggio's competitiveness further suffered with the strengthening of the Italian currency.

It considered taking advantage of Italian government incentives to invest in the Mezzogiorno, Italy's poor south, unleashing controversy in Tuscany which feared losing one of its most significant industries.

Then personal tragedy struck the company when its chief executive, Giovanni Alberto Agnelli, died of cancer. The young Agnelli, son of Umberto Agnelli, chairman of Ifil, the Agnelli family industrial holding and core shareholder of the Fiat automotive empire, was being groomed at Piaggio to assume eventually an increasingly important role at Fiat.

But Piaggio now appears to have turned the corner. After two years of losses the company last year was back in the black.

"We achieved the turnround by cutting structural costs as well as significantly reducing our manufacturing costs, increasing productivity after long and difficult negotiations with our unions," says Mr Rosselli Del Turco.

The company cut 1,430 jobs and managed to negotiate a trend-setting flexibility agreement with its unions to enhance its competitiveness. The problem for Piaggio has traditionally been the annual peaks and troughs of its production volumes. Demand for scooters is highest in the summer months while the winter has always been sluggish.

The issue was to introduce a flexible production system whereby staff numbers could be adapted to meet demand. The Pontedera plant has a maximum capacity of 3,000 scooters a day. In the peak summer months it produces about 2,600. The number drops dramatically to around 1,000 in winter.

"The agreement with the unions has helped us reduce our structural costs significantly," says Alessandro Barberis, Piaggio's chairman. A former senior executive at Fiat, he added that the agreement had significantly increased the company's ability to react quickly to swings and changes in a highly seasonal market.

The company is seeking to increase its international presence, pinning its hopes on expansion in India and China. Mr Rosselli Del Turco sees a parallel between India today and the Italian market at the end of the war.

"It has huge potential and our products already have a strong lead in that market," he says. The Italian company is considering making an acquisition in India to boost its presence.

The restructuring strategy has also seen Piaggio set up a separate engine division which not only supplies the company's needs but also sells its products to rival manufacturers. "Aprilia, Italjet, Moto Guzzi, Cagiva are already our customers," says Mr Barberis. But probably the biggest challenge Piaggio faces is the introduction of European Union pollution emission standards this year and their likely impact on the market.

"We have taken a strategic decision to be very aggressive in addressing this issue," says Mr Rosselli Del Turco. Piaggio has already launched a range of environmentally friendly scooters complying with the new standards.

"We believe the new rules will offer us a tremendous market opportunity," adds the Piaggio chief executive.

Paul Betts

THE UFFIZI by Jennifer Grego

The blast which shook the establishment

On May 26, 1993, a bomb exploded in Florence's Via dei Georgofili: a small street skirting the West wing of the Uffizi galleries. The bomb, attributed to the Mafia, caused extensive damage, but the plus side was a salutary shock to Italy's complacent and sleepy arts administration. Buildings adjacent to the Uffizi, long coveted by the museum's director were vacated, restored and handed back to the gallery.

This sudden acquisition of space meant that a magnificent 150-strong private collection of paintings, ceramics and sculpture, the Contini Bonacossi collection, purchased by the state in 1969, could at last come home.

This collection includes a Sassetta altarpiece, the 'Madonna of the Snow (referring to the miraculous fall of August snowon the site of Rome's St. Maria Maggiore), an early Bernini sculpture, a Veronese portrait, and an extraordinary group of Spanish treasures: Goya, Velasquez, Zurbaran and El Greco.

The terms "Grandi Uffizi" and "Nuovi Uffizi" have been much bandied about in recent years. The museum's director, Annamaria Petrioli Tofani, abandoned the former in 1989, shortly after taking office. She felt it invited embarrassing comparison with the Uffizi's younger but larger sister museum, the Louvre. She points out that while the Louvre can move the French finance ministry to create more exhibition space, she has little voice in decisions concerning her museum's future. Even the Contini Bonacossi collection has not had the space she feels it required, due to forced cohabitation with the region's catalogue office.

Things move slowly in Italy. The "Grandi Uffizi" idea dates back to the immediate post-war years, when the first signs of mass tourism began to appear. In 1965, it was decided to dislodge the state archives, which had occupied a large part of the lower floors since the 1880s. The archives finally moved out in 1988, and Ms Petrioli Tofani began her "new Uffizi" project.

When faced with a choice between innovation and conservation, Italian museum directors tend to opt for the latter.

This is comprehensible in the case of the Uffizi – a masterpiece of Mannerist architecture, commissioned by Cosimo I de Medici from the family architect, Vasari in 1560, to house the duchy's administrative offices.

So Ms Petrioli Tofani has overseen a conservative restoration of her newly-acquired spaces – returning the "piano nobile" and ground-floor areas to their 16th century glory. The museum entrance is practically unchanged, and the ground floor areas are divided into the now privately run ticket office, bookshop and multi-media areas placed towards the River Arno where the risk of flooding is greatest, while adisplay section of documents relating to the building's story is sited close to the Palazzo Vecchio.

A new and glamorous covered exit into Piazza Castellani (at the back of the East wing) is to be be built by the Japanese firm, Arata Isozaki, winner in an open competition with figures such as Norman Foster and Gae Aulenti. The director approves of Isozaki's project, but is opposed to the "vulgar" exit approach. Visitors will be forced into a tortuous route along displays of museum products: "too like motorway cafe exits".

Ms Tofani is prevented by staffing problems from doing the small, didactic exhibitions she admires at the National Gallery in London. However, the Uffizi manages at least two exhibitions of drawings per year, each lasting three months (the maximum period for exposure to light without danger).

Although some paintings have been removed from the Tribune, the Medici Venus, the other antique sculptures and the table with its mosaic of semi-precious stones still occupy precisely the positions shown in Zoffany's 1772 painting of rather smug English aristocrats on their grand tour.


Visitors are unable to see Simone Martini's Annunciation: The Bridgeman Art Library

The Uffizi does carry out restorations regularly with private funding. One of the most recent is the Verrocchio/Leonardo "Baptism of Christ". As the pressure from mass tourism increases, the "spreading" of visitors has become a problem for all the arts cities of Italy. In 1998, Florence had 6m visitors, all struggling to see a cluster of masterpieces in one square kilometre.

Ex-Arts minister, Antonio Paolucci, describes Italy's tourist meccas, Florence and Venice, as "ice-cream" cities, being eaten up by ravenous crowds.

Florence itself has 66 museums, only 10 per cent of which are visited, – the Uffizi being under the greatest pressure. Ms Petrioli Tofani feels more power should be in her hands, allowing her to resolve problems which cause intense irritation to foreign visitors. A recent visit showed seven rooms closed owing to lack of attendants, including that containing Simone Martini's famous 'Annunciation'.

Oddly enough, in Florence today, there are actually less important sights continuously available to tourists than a century ago. Vasari's spectacular corridor linking the old and new residences of the Medici, Palazzo Vecchio and Palazzo Pitti, via the Uffizi and the Ponte Vecchio, re-opened following restoration in 1973, but has subsequently only been accessible sporadically during the summer months. It is likely to be re-opened between May and October this year.

Opening hours: 08.30 - 19:00, Sunday 08.30 - 13:00, Monday closed. Contini Bonacossi (same ticket as Uffizi) open 08.45 - 13:00 (booking compulsory), information and bookings, telephone: (055) 294883

EURO PRICES

EQUITIES

Europe shrugs off Compaq profits blow

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Euro-zone stock markets were hit yesterday by fall-out from Compaq Computer's profit warning but recovered much of their poise later in the day as Wall Street appeared to shrug off related anxieties.

The FTSE Eurobloc 100 index, which covers the leading companies in countries which have joined monetary union, closed at 1,057.90, down a mere 0.09 per cent or 0.97.

The *FTSE* Eurotop 100 index, covering countries both inside and outside Emu, ended at 2,996.34, down 7.41, while the broader FTSE Eurotop 300 index was down 4.91 at 1,289.63.

The warning late on Friday by US group Compaq had weighed on markets all weekend and led to a slide in Asian technology stocks overnight.

Europe followed suit, though the drop was tempered when Wall Street took the view that Compaq's problems were company-specific, rather than indicating a broad sectoral weakness.

Positive sentiment from last week's European Central Bank interest rate cut also ameliorated market weakness.

Euro government bonds were higher in late trading after the release of euro-zone data showing gross domestic product rising 0.2 per cent in the fourth quarter from the third.

The worst-performing Eurotop sector was information technology, which dropped 2.78 per cent on the day, with hardware down 2.85 per cent and software 2.52 per cent lower.

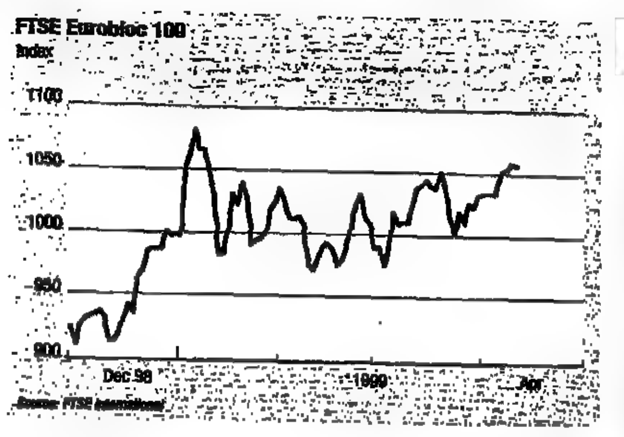
German software maker SAP slipped 1.7 per cent, Misys of the UK lost 2.6 per cent, while Philips of Holland, which has large semi-conductor activities, dropped 1.76 per cent.

Among gaining sectors, distributors leapt 4 per cent, while automobiles rose 1.06 per cent. Renault ended 5.6 per cent higher after a press report that it had not ruled out the sale of the truck and bus maker affiliated to Nissan Motor, in which it is taking a 37 per cent stake.

However, shares in Volkswagen, Europe's largest car manufacturer, dipped 0.7 per cent, even though it reported a rise of more than 9 per cent in first quarter sales at the weekend.

Other risers included health, up 1.03 per cent.

FTSE Eurobloc 100



FTSE Actuaries Share Indices — European series

Apr 12

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1289.63	[illegible]	-4.91	1.90	5.32	1333.66
FTSE Eurotop 100	2996.34	-0.25	-7.41	1.88	11.79	1078.58
FTSE Eurobloc 100	1057.90	-0.09	[illegible]	[illegible]	1.57	1075.49
FTSE EuroMid	1250.20	-0.37	-4.62	2.73	[illegible]	1303.40
FTSE EuroMid Eurobloc	1212.65	[illegible]	-4.64	2.52	5.12	1243.60
FTSE EuroMid Ex UK	1271.87	-0.41	-5.18	2.34	[illegible]	1299.93
FTSE Eurotop 300 Regions						
Eurobloc	1319.90	-0.12	-1.62	1.86	2.34	1350.82
UK	1259.05	-0.58	-7.33	2.16	10.87	1332.80
Europe Ex-Eurobloc	1269.95	-0.65	[illegible]	1.94	8.31	1324.44
Europe Ex-UK	1308.16	-0.26	-3.47	1.78	2.32	1335.08
FTSE Eurotop Industry Sectors						
RESOURCES	1018.18	+0.39	+3.92	2.74	3.69	1069.30
Mining	989.81	[illegible]	[illegible]	3.47	21.37	[illegible]
Oil & Gas	981.05	+0.46	[illegible]	2.71	2.62	[illegible]
BASIC INDUSTRIES	1151.59	-0.08	-0.87	2.49	6.95	1183.74
Chemicals	880.76	-0.10	-0.88	2.42	2.93	898.54
Construction & Bld Matls	1070.73	-0.08	-0.88	2.20	3.06	1093.35
Forestry & Paper	958.37	[illegible]	+1.75	4.04	[illegible]	1040.49
GENERAL INDUSTRIALS	1176.11	-0.71	[illegible]	2.33	[illegible]	1207.15
Aerospace & Defence	790.84	-0.27	-2.16	2.10	3.94	805.67
Diversified Industrials	990.36	[illegible]	-5.89	2.05	0.00	1013.01
Electronic & Elect Equip	1092.84	-0.91	-10.06	1.72	[illegible]	1109.39
Engineering & Machinery	1084.39	-0.71	-7.74	4.04	[illegible]	1105.69
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER INDICES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE EUROTOP 300

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Apr 12

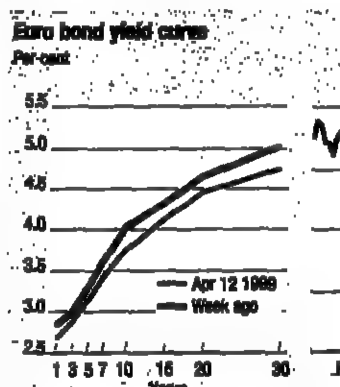
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

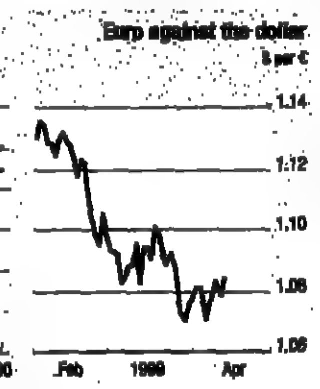
BONDS

INTEREST RATE SWAPS

Apr 12

	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask
1 year	2.75	2.78	[illegible]	[illegible]	1.18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 year	2.86	2.90	5.31	5.34	1.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 year	3.03	3.06	5.37	5.41	1.73	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]





EURO-ZONE BONDS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HIGH YIELD									
Bebark	04/07	10.125	B+	115.000	8.14	+0.00	-0.15	+2.59	
Colt Telecom	11/07	8.875	n/a	106.500	7.82	[illegible]	[illegible]	+4.27	
Impress Metal	05/07	9.875	B	111.500	7.14	+0.00	-0.20	+3.66	
Remy Cointreau	07/05	10.000	B+	105.825	8.81	+0.28	[illegible]	+5.52	

Standard & Poor's ratings. Source: Interactive Data/FT Information.

Swedish bond prices fall sharply

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

Swedish bonds grabbed the spotlight in a day of quiet European trading as their prices fell sharply and yields jumped on news of the resignation of the country's finance minister.

Erik Asbrink's surprise resignation caused jitters on the international capital markets and led to a widening of the Swedish 10-year bond's yield spread over German bunds by 12 basis points to 46 basis points.

Some observers interpreted the departure of Mr Asbrink as negative for the prospects of Sweden's joining the single currency by 2002. Jeremy Hawkins at Bank of America said: "The widening of the spreads illustrates how sensitive the markets are to any move affecting an entry to the EMU."

US Treasuries were mostly higher in thin mid-day trading. The 30-year Treasury bond, the benchmark for US long-term interest rates, was ¼ higher at 97¼, sending the yield down to 5.445 per cent.

Among shorter-term issues the 10-year note was stronger by $\frac{5}{32}$, sending the price to 97$\frac{21}{32}$ and the yield to 5.036 per cent. The two-year note was unchanged at 100, yielding 4.874 per cent.

Traders were awaiting a week of corporate bond deals that was expected to put pressure on the Treasury market. In addition, a series of economic data are expected later in the week, starting today with the release of new figures on consumer prices and retail sales.

No reports were issued yesterday, adding to the mild tone of trading. On Friday the latest release on producer prices showed that the key index was up by 0.2 per cent, slightly below expectations.

European bond prices edged higher in a day of quiet trading. The 10-year German bund future rose 0.33 to 116.10.

Last week's surprise 50 basis points cut in euro-zone interest rates by the European Central Bank seems to have convinced traders that this could be the last cut in a rate cycle.

Wim Duisenberg, the head of the ECB, has indicated it was now up to the politicians to stimulate economic growth. Hans Tietmeyer, the president of the Bundesbank, yesterday reiterated this, saying: "Those responsible for other policy areas are urged now even more to take the necessary steps to improve longer-term growth prospects for the euro area."

But analysts say the ECB's next move depended on economic recovery in Europe. German industrial production figures yesterday indicated that German gross domestic product could have stabilised in the first quarter after a 0.4 per cent contraction in the fourth quarter of last year. If Germany's GDP contracted in the first quarter, it would mean the euro-zone's largest economy was formally in recession, said Mr Hawkins.

UK gilt prices were marginally lower with the 10-year future closing 0.03 down at 118.27. It was the first day of gilts trading on Liffe's new electronic system. Last week's cut of 25 basis points in UK interest rates failed to support gilts and was interpreted as the last cut in the rate cycle.

Mr Hawkins said the conflict in Kosovo is bound to hit the longer end of the European bond market at some stage as economists begin to calculate the impact of the prolonged war on government budgets.

Electronic trading starts in Liffe gilts

By Vincent Boland

The London International Financial Futures and Options Exchange yesterday hailed its first day of electronic trading in UK government bond (gilt) contracts a success, as it began switching its fixed-income products to its Liffe Connect electronic trading platform from the exchange floor.

Trading began in the five-year and 10-year contracts and volume had reached 25,000 contracts by late evening. Hugh Freedberg, Liffe chief executive, said: "It was a good launch and went relatively smoothly. Volume represented a good average day on the trading floor."

The switch to electronic trading at Liffe, which is being introduced gradually for its stable of financial products, is in response to intense competition from German, French and Swiss futures markets.

Last year the London market lost its dominance of trading in German bund futures – widely regarded as European benchmarks – to Eurex, the German/Swiss futures market venture.

Simon Orebi Gann, Liffe's managing director of information technology, said bid-to-offer spreads for gilt contracts had tightened yesterday from 2-3 ticks to 1-2 ticks. "It is a much tighter market, which is better for the customer," he said.

Next month Liffe starts electronic trading in German, Italian and Japanese government bond contracts, euribor finance bond and equity index products, completing the transfer of its futures products. It aims to have transferred short-term interest rate products by the end of August.

NEWS DIGEST

SHORT-TERM DEBT

Banks hit out at 'worse' Russian terms on GKOs

Russia has signalled "materially worse" terms for the restructuring of the short-term domestic debt on which it defaulted last summer, foreign banks said yesterday.

The government has cut from \$550m to \$200m the amount to be made available for repatriation and has not produced a list of permitted uses for the blocked roubles. A list of banks authorised to hold roubles for foreign investors has been abolished without an indication of what will replace it. The 19-bank committee representing foreign holders of \$15bn of the GKO/OFZ securities said yesterday it had told the government the announced terms were "unlikely to achieve voluntary acceptance by investors". It urged "constructive steps to achieve a voluntary restructuring" and a postponement of deadlines.

Yesterday's statement represents an effort to reconcile two opposing views within the committee. One group believes Russia may yet be persuaded to consider an alternative, such as the investment fund proposed last month by Credit Suisse First Boston, or broader initiatives along the same lines. The other view, one banker said yesterday, was that "the longer this thing gets delayed, the worse the deal gets".

The finance ministry said last week that holders of 92 per cent of domestically-held debt and 36 to 37 per cent of foreign-held debt, had accepted its terms.

In February, Deutsche Bank accepted the Russian terms on behalf of an undisclosed proportion of its proprietary and client holdings, while Chase Manhattan committed its own holdings, but not its clients', to the deal.
Clay Harris, London

EURO BILLS

Bank of England raises €300m

The Bank of England will today tap international capital markets in its own name for the first time since 1716 by issuing its first euro-denominated bills. The Bank will issue €300m of bills of six months maturity, which will provide daily liquidity for UK users of Target, the cross-border settlement system for the euro-zone. The auction marks the beginning of the process under which the Bank of England will take over the Treasury as the issuer of euro bills.

Euro bills are similar to sterling Treasury bills but are denominated in euros. The euro bills will be the obligation of the Bank of England rather than the Treasury. The auction will be the first in a series of euro bill issues by the Bank of England that will vary in size and maturities.

The Bank has previously covered its exposure on Target by conducting currency swaps from sterling into euros. These swaps will be unwound from this month as the Bank of England euro bills are issued to act as a permanent source of financing intra-day liquidity on Target. The Bank will also issue €700m of euro-denominated Treasury bills with a short maturity. **Arkady Ostrovsky, London**

Eurohypo issues €500m floater

NEW ISSUES

By Khozem Merchant

Eurohypo, the German mortgage bank, launched a €500m floating-rate note, which bankers said could signal a flurry of "floaters" following the cut in interest rates by the European Central Bank last week.

Belgium is expected to launch €2bn of three-year floating-rate notes in the next few days, say market sources, part of a series of such deals expected to be launched by borrowers encouraged by the rate cut.

Eurohypo, formerly Frankfurter Hypothekenbank, launched the three-year bonds priced to yield three-month euribor less two basis points. A banker described the issue as a "good defensive instrument, with not much downside capital risk".

Cofinoga, a French consumer finance company, returned to the debt market for its second euro issue. The €110m deal does not have a final maturity but bankers said it has a "final call in year 10". This means investors expect the bond to be redeemed after a decade.

The bond was priced to yield 200 basis points over the relevant German bund and traded unchanged. French and other continental European investors bought the bonds.

The European Investment Bank launched \$1bn of five-year bonds, its first dollar denominated benchmark issue this year. The deal, which has attracted strong interest from buyers in Asia looking for quasi-government medium-term notes, will be priced today to yield an indicative 42 basis points over the relevant US Treasury issue, broadly in line with existing EIB paper in terms of yield spread.

On a day of quiet and low volume issuance, several big name borrowers either awarded mandates or announced their intention to return to the debt markets.

The most notable was Assicurazioni Generali, which confirmed it was raising as much as €1.5bn (\$1.63bn) through a bond issue. Weekend press reports suggested the money may be used by Generali to launch a bid for fellow insurer INA.

Italian daily La Republica reported at the weekend that Generali was preparing to make an offer for INA and was negotiating a line of credit for €2bn in London that could be used to finance the bid.

The deal's lead managers indicated that the proceeds would be used to refinance Generali short-term debt raised in 1998, according to agency reports.

The Inter-American Development Bank has mandated Morgan Stanley Dean Witter and Lehman Brothers to lead-manage a \$1bn 10-year fixed-rate bond to be launched soon.

Freddie Mac, the US mortgage agency, is to add to its \$3bn five-year bond today.

Bear Stearns and Goldman Sachs have been mandated to lead-manage a \$1.5bn five-year global bond to be launched by Associates Corp of North America

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
European Investment Bank	1bn	(a,s)	(a)R	Dec 2004	0.25R	+42(4¾%Feb04)	ABN Amro/Merrill Lynch
ARHELT 1999-1(b)★‡	224	(b,l)	100.00	Apr 2029	0.30	-	Bear Stearns
Banco Safra(c,s)	100	11.50#	99.802R	Mar 2001	0.50R	-	Bear Stearns
EUROS							
Eurohypo(p)‡	500	(d,a)	100.10	Apr 2002	0.10	-	Deutsche/Goldman Sachs
Master Noria 99-1, A1(g)‡	150	(g1,s)	100.00	Apr 2001	0.125	-	Paribas
Master Noria 99-1, A2(g)‡	150	(g2,s)	100.00	Apr 2002	0.175	-	Paribas
Lehman Brothers Hldgs plc	300	4.00(s)	99.92R	Feb 2003	0.375R	+100(Feb03)	Lehman Brothers
Bremer LB Capital Mkts‡	200	(h,l)	100.05R	May 2000	0.05R	-	HypoVereinsbank
Cofinoga(l)	110	(j1)	101.00R	Undated	1.00R	+200(Jan09)	Lehman Brothers
STERLING							
European Inv'ment Bank(k)	100	5.375	104.30	Jun 2021	0.45	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today. b) American Residential Home Equity Loan Trust. Expected maturity: 25/4/14. Av life: 3.06 yrs. b) 1-mth Libor +35bp. c) Callable & puttable on 26/3/00 at par. d) 3-mth Euribor -2bp. e) Spread relates to German govt bonds. g) Secured on consumer loans originated by Cetelem. g1) 3-mth Euribor +14bp. g2) 3-mth Euribor +17bp. g3) Also issued: Class B, €21m, 3-ME +40bp, par. h) 3-mth Euribor -4bp. j) Callable from 4/5/09 at par. j1) 5.935% to 4/5/09, then 3-mth Euribor +250bp. k) Fungible with £250m. Plus 202 days accrued. l) Long 1st coupon. p) Oeffentliche Pfandbriefe. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 12	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.8590	4.80	-0.09	-0.22	-0.44	-0.28
	08/08	6.750	128.1540	5.18	-0.05	-0.25	-0.38	-0.36
Austria	03/01	5.250	104.5200	2.76	-0.00	-0.10	-0.34	-1.35
	01/08	6.000	107.8400	3.92	-0.03	-0.25	-0.24	-1.01
Belgium	03/01	5.000	104.0800	2.81	-0.01	-0.18	-0.29	-1.31
	03/08	3.750	97.5000	4.05	-0.05	-0.20	-0.21	-0.87
Canada	12/00	5.000	100.5800	4.62	-0.03	-0.14	-0.44	-0.22
	06/08	6.000	107.8500	4.91	-0.01	-0.07	-0.27	-0.32
Denmark	11/00	9.000	108.2800	3.10	-0.02	-0.11	-0.34	-1.30
	11/09	6.000	115.3800	4.17	-	-0.18	-0.29	-0.89
Finland	08/00	4.000	101.4500	2.72	-0.03	-0.20	-0.28	-1.03
	04/09	5.000	107.8560	4.02	-0.01	-0.20	-0.24	-0.81
France	07/00	4.000	101.5600	2.69	-0.08	-0.16	-0.33	-1.40
	04/05	7.250	123.4300	3.44	-0.01	-0.21	-0.27	-1.20
	04/09	4.000	100.8300	3.90	-0.05	-0.21	-0.23	-0.87
	04/29	5.500	110.9700	4.80	-0.04	-0.22	-0.23	-0.59
Germany	08/01	5.000	104.4400	2.78	-0.02	-0.17	-0.23	-1.16
	01/08	6.000	114.3300	3.88	-0.03	-0.20	-0.26	-1.12
	01/09	3.750	99.7200	3.78	-0.04	-0.23	-0.24	-1.07
	07/28	4.750	99.8500	4.76	-0.04	-0.24	-0.24	-0.63
Greece	03/00	9.800	100.1000	9.10	-	-0.24	-0.05	-0.78
	01/09	6.300	103.7738	5.78	-	-0.21	-0.12	-2.57
Ireland	10/01	6.500	108.6400	2.86	-0.01	-0.12	-0.29	-1.94
	08/05	8.000	118.1500	3.90	-0.04	-0.20	-0.30	-1.11
Italy	07/01	4.500	103.3900	2.90	-0.01	-0.14	-0.23	-1.61
	07/03	4.500	105.0800	3.21	-0.03	-0.15	-0.26	-1.50
	05/08	4.500	104.0300	4.01	-0.04	-0.18	-0.20	-1.03
	11/27	6.500	122.5800	5.00	-0.04	-0.19	-0.19	-0.53
Japan	12/00	6.800	111.2250	0.17	-0.02	-0.04	-0.09	-0.36
	12/03	4.100	116.4220	0.74	-0.04	-0.13	-0.18	-0.45
	06/08	1.800	103.1350	1.43	-0.04	-0.16	-0.29	-0.24
	09/18	2.300	99.6020	2.32	-0.08	-0.15	-0.32	-0.20
Netherlands	01/01	9.000	110.4700	2.78	-0.03	-0.14	-0.32	-1.35
	07/08	3.750	98.4300	3.94	-0.04	-0.20	-0.21	-0.89
New Zealand	03/01	8.000	105.5428	4.78	-0.02	-0.04	-0.29	-3.18
	07/09	7.000	110.5511	5.63	-0.02	-0.16	-0.28	-1.29
Norway	06/01	7.000	104.6000	4.66	-0.01	-0.12	-0.35	+0.34
	05/09	5.500	105.8300	4.63	-0.04	-0.22	-0.34	-0.86
Portugal	03/00	5.375	102.3400	2.77	-0.05	-0.09	-0.17	-1.42
	06/08	5.375	110.1400	4.03	-0.05	-0.21	-0.19	-0.94
Spain	01/01	5.000	103.9900	2.80	-0.05	-0.14	-0.30	-1.63
	07/09	0.000	107.7900	4.04	-0.20	-0.34	-0.49	-0.94
Sweden	05/00	10.250	107.3670	2.99	+0.09	-0.02	-0.32	-1.68
	05/08	6.500	117.1490	4.18	+0.07	-0.14	-0.20	-0.98
Switzerland	08/00	4.500	103.8000	1.13	-0.02	-0.19	-0.30	-0.77
	01/08	4.250	116.8000	2.12	+0.03	-0.18	-0.07	-0.85
UK	11/01	7.000	105.2300	4.81	+0.02	+0.02	-0.08	-1.78
	13/03	6.500	107.9800	4.57	+0.01	-0.05	-0.12	-1.28
	12/09	5.750	111.5100	4.39	+0.01	-0.13	-0.15	-1.38
	12/28	6.000	128.0000	4.42	+0.04	-0.09	-0.13	-1.25
US	01/01	4.500	99.3261	4.89	-0.03	-0.10	-0.12	-0.86
	02/04	4.750	99.1357	4.96	+0.09	-0.10	-0.19	-0.70
	11/08	4.750	97.8527	5.04	-	-0.15	-0.12	-0.62
	02/29	5.250	97.2470	5.44	-0.02	-0.16	-0.10	-0.47

London closing. * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Apr 12	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.19	+1.42	+0.15	Netherlands	3.90	+0.13	-1.14
Austria	3.91	+0.14	-1.13	New Zealand	5.62	+1.85	+0.58
Belgium	4.05	+0.28	-0.99	Norway	4.64	+0.87	-0.40
Canada	4.92	+1.15	-0.12	Portugal	4.05	+0.28	-0.99
Denmark	4.14	+0.37	-0.90	Spain	3.99	+0.22	-1.05
Finland	4.02	+0.25	-1.02	Sweden	4.25	+0.48	-0.79
France	3.89	+0.12	-1.15	Switzerland	2.36	-1.41	-2.68
Germany	3.77	-	-1.27	UK	4.43	+0.66	-0.61
Greece	5.86	+2.09	+0.82	US	5.04	+1.27	-
Ireland	3.94	+0.17	-1.10				
Italy	4.04	+0.27	-1.00				
Japan	1.54	-2.23	-3.50				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Apr 12	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	92.4000	10.11	+0.09	+1.54	+5.20
Poland	07/04	7.125	BBB-	104.2500	6.14	-0.14	-0.32	+1.18
Russia	06/07	10.000	n/a	29.9900	30.51	+0.43	-3.45	+25.50
LATIN AMERICA								
Argentina	09/27	9.750	BB	88.4000	11.05	+0.04	-0.31	+5.96
Brazil	05/27	10.125	B+	75.8400	13.46	+0.06	-1.90	+8.05
Mexico	05/26	11.500	BB	115.9500	9.81	+0.05	-0.70	+4.43
ASIA								
China	07/06	7.750	BBB+	103.3000	7.14	-0.02	-0.53	+2.15
Philippines	10/16	8.750	BB+	94.3879	9.41	+0.01	-0.44	+4.23
Thailand	04/07	7.750	BBB-	103.8000	7.15	+0.02	-0.43	+2.14
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.7500	7.59	+0.20	+0.27	+2.73
South Africa	10/06	8.375	BB+	101.5000	8.10	+0.17	-0.47	+3.11
Turkey	09/07	10.000	B	93.0500	11.30	-0.08	-0.39	+6.29
BRADY BONDS								
Argentina	03/23	5.750	BB	71.2500	8.93	-	-0.21	+3.61
Brazil	04/14	5.000	B+	65.6250	12.79	+0.07	-1.29	+7.05
Mexico	12/19	6.250	BB	79.8750	8.30	-0.09	-0.24	+3.06
Venezuela	03/20	6.750	B+	67.5000	10.66	+0.28	-0.25	+5.40

London closing. Prices in US\$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.34	98.65	+0.40	98.7	98.34	28,287	80,878
Sep	-	98.07	+0.54	-	-	-	-

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Jul	Puts May	Puts Jun	Puts Jul
93	-	2.73	2.84	-	0.02	0.14
94	-	1.79	1.98	-	0.08	0.28
95	-	0.96	1.25	-	0.25	0.54
96	-	0.37	0.68	-	0.66	0.97

Est. vol. total, Calls 33 Puts 25. Previous day's open int., Calls 7,250 Puts 4,807.

Germany

NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	115.97	116.04	+0.27	116.29	115.90	430,631	580,187
Sep	115.88	116.03	+0.32	116.21	115.88	1,902	16,272

NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109.71	109.86	+0.03	109.78	109.64	128,549	251,510

NOTIONAL EFS SWAP FUTURES (LIFFE)* 5yr 4.0% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	102.34	+0.06	-	-	0	214

NOTIONAL EFS SWAP FUTURES (LIFFE)* 10yr 4.5% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	102.16	+1.06	-	-	0	367

* Traded on APT prior to listing on LIFFE CONNECT™ on 10/5/99. All open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.79	115.11	+0.32	115.38	114.79	9639	35905

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.16	99.51	+0.35	99.67	99.16	13,206	18,332

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	108.24	-0.18	-	-	0	0
Sep	-	108.24	-	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	118.58	118.27	-0.03	119.00	117.90	25061	80189
Sep	-	117.97	-0.03	-	-	0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jul	Calls Sep	Puts Jul	Puts Sep
11650	1.85	2.35	1.31	1.81
11700	1.60	2.09	1.56	2.05
11750	1.35	1.85	1.81	2.32
11800	1.14	1.64	2.10	2.60
11850	0.95	1.44	2.41	2.90
11900	0.79	1.26	2.75	3.22

Est. vol. total, Calls 15 Puts 0. Previous day's open int., Calls 16004 Puts 5984

US

US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	123-07	123-10	+0-11	123-13	123-02	283,502	558,365
Sep	122-21	122-26	+0-09	122-29	122-21	5,386	39,082
Dec	122-08	122-08	+0-09	122-08	122-03	5	3,601

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	133.98	134.03	-	134.12	133.95	1041	n/a
Sep		133.18	-	-	-	0	n/a

Euro

€ BOND FUTURES (MATIF) £100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	110.35	110.15	+0.57	110.35	110.35	1	20

US CORPORATE BONDS

Apr 9	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.9495	5.54	+0.01	-0.19	+0.54
NY Tel	06/25	7.00	A+	100.2016	6.98	+0.02	-0.10	+1.53
CWE	06/08	8.00	BBB	112.0134	6.00	+0.01	-0.23	+0.98
FINANCIALS								
GECC	05/07	8.75	AAA	118.8124	5.80	+0.01	-0.20	+0.78
Banc One	08/02	7.25	A	104.5852	5.70	+0.01	-0.16	+5.70
CNA Fin	01/18	6.95	A-	95.5856	7.38	+0.02	-0.24	+1.93
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0000	5.39	-0.14	-0.33	+0.91
Wal Mart	08/02	8.75	AA	104.1272	5.28	+0.01	-0.18	+5.28
Dayton Hud	06/21	9.70	A-	133.0719	6.79	+0.05	-0.06	+1.34
AGENCIES								
FHLMC	04/07	7.14	N/A	108.2200	5.66	-	-0.10	+0.64
SLMA	03/00	7.50	N/A	102.1220	5.06	-0.03	-0.19	+0.66
FNMA	02/18	8.95	N/A	133.1294	5.99	+0.03	-0.12	+0.54
FFCB	08/08	8.95	N/A	119.2466	5.63	+0.01	-0.07	+0.59
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.0000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	107.2500	0.00	-	-	-
Pacefix	08/04	10.75	B-	98.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

			Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	4.86
Broker loan rate	6½	Two month		Three year	4.89
Fed.funds	4⅝	Three month	4.34	Five year	4.93
Fed.funds at intervention	-	Six month	4.48	10-year	5.03
		One year	4.60	30-year	5.44

INTERNATIONAL BONDS

Apr 12	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
US \$								
EIB	04/07	7.250	AAA	108.8229	5.72	-0.01	-0.16	+0.71
ABN Amro	06/07	7.125	AA-	106.1811	6.29	-0.01	-0.12	+1.28
Quebec	01/07	7.000	A+	108.4581	5.95	-0.01	-0.04	+0.94
Citicorp FRN	02/04	5.096	AA-	99.8538	5.10	-0.01	-0.17	+0.14
C\$								
Bayer L-Bk	08/04	9.500	AAA	118.8480	5.33	+0.01	-0.35	+0.23
Toronto (M of)	08/04	8.500	AA+	113.9436	5.31	+0.01	-0.33	+0.21
Bell Canada	07/09	10.825	A+	101.2770	8.05	-0.01	-0.48	+1.28
Deutsche B FRN	09/02	5.875	AA+	101.2833	5.42	-	-0.31	+0.46
£								
EIB	12/07	7.625	AAA	116.2800	5.23	+0.03	-0.08	+0.63
Dresdner Bk	12/07	7.750	AA-	111.7029	5.97	+0.03	-0.09	+1.39
British Gas	03/00	7.625	A+	101.8349	5.59	+0.03	-0.01	+0.73
Abbey Nat FRN	02/02	5.557	AA	99.5966	4.55	+0.03	+0.49	+0.19
SFR								
EIB	01/06	3.750	AAA	104.9703	3.09	+0.03	-0.07	+0.93
Brit Columbia	02/02	3.250	AA	104.1721	1.73	-0.01	-0.20	+0.23
Hydro-Quebec	08/01	6.750	n/a	109.0028	2.31	-	-0.29	+1.03
Gen Elect	09/01	1.280	n/a	99.7436	1.29	-	-0.23	+0.01
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.1731	0.38	-0.02	-0.09	-0.02
Spain (Kingdom)	03/02	5.750	AA+	115.5993	0.40	-0.02	-0.12	-
Cred Foncier	08/02	4.750	A	112.5910	0.88	-0.02	-0.11	+0.48
Italy (Rep of)	07/99	0.516	AA	100.0254	0.07	-	-0.12	-
A\$								
IBRD (World Bk)	02/08	8.000	AAA	104.2665	5.38	-0.05	-0.42	+0.21
Nor Stn Yhdes Tr	05/06	8.000	n/a	106.2455	5.42	-0.06	-0.40	+0.36
S. Aus Gov Fin	06/03	7.750	AA	108.7155	5.37	-0.09	-0.45	+0.57
GMAC Aust	05/01	9.000	n/a	107.3661	5.19	-0.08	-0.48	+0.56

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities

UK Indices

Price Indices UK Gilts	Mon Apr 12	Day's chge %	Accrued interest	xd adj ytd	Total Return	Yield	Duration Years	% Weight
1 Up to 5 years (15)	121.38	-0.03	2.41	2.28	1211.04	4.74	2.31	33.26
2 5-10 years (11)	171.34	-0.04	2.92	2.07	1343.73	4.55	5.83	29.63
3 10-15 years (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 5-15 years (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Over 15 years (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Irredeemables (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 All stocks (41)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Index-linked	Mon Apr 12	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	226.60	+0.07	1.40	1.26	1183.36	14.59
2 Over 5 years (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 5-15 years (5)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Over 15 years (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yield indices / Real yield / Inflation 0% / Inflation 5%: [illegible]

FT Fixed Interest Indices: [illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Dollar recovers on early Dow relief

MARKETS REPORT

By Alan Beattie

The currency market's fears that a fall in share prices would trigger a collapse in the dollar were assuaged by an early recovery in the Dow yesterday.

Nerves were frayed throughout the early London trading session as the profits warning issued by Compaq on Friday night contributed to falls in Asian equity prices.

The dollar fell against the other large currencies, with the euro rising above $1.088 and the yen breaking the Y120 barrier.

But despite a fall of around 70 points when the US stock markets opened, the Dow soon recovered and by the end of the London trading session was above its Friday close.

The dollar promptly regained some of its earlier losses and closed at the end of London trading at $1.085 against the euro and Y120.1 against the yen.

Against sterling it moved little over the day as the special relationship between the currencies remained intact, especially given the fact that UK stock prices also looked shaky yesterday. At the end of London trading the dollar was at $1.615 against the pound.

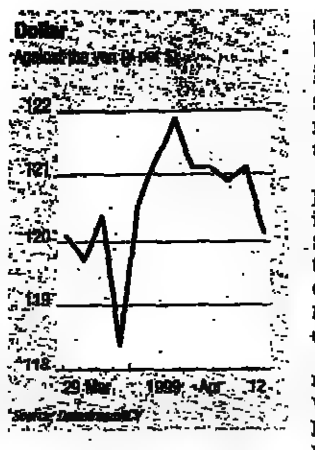
■ Few analysts changed their fundamental views of the prospects for the dollar yesterday. Dollar bulls took comfort from its robust performance and dollar bears shrugged off the effect of a single profit warning.

"The Dow was always going to come off a little to start with on the Compaq news," said Ian Shepherdson, US economist at High Frequency Economics in Valhalla, New York, and long-time dollar bull. But he said that in the medium term, the dollar should continue to rise.

"Today we saw a small blip," Mr Shepherdson said. "But if the Dow continues rallying we could see the dollar much stronger," he added.

In the bearish corner, David Bloom at HSBC in London said that one company's results could always be put down to management error, and that equity bubbles could initially be hard to burst.

"The market comforted itself with the idea that the Compaq results were industry-specific," he said. "As soon as the Dow opened it was clear that some people were in the mood to take profits. But in the end there was not even a small, healthy set-back for stocks."



Mr Bloom said that a series of bad results, particularly in the technology sector, would be harder for the Dow to survive, and this could topple the dollar. "I remain a medium-term dollar bear," he said.

"When the dollar finally does turn it will be vicious, and I would rather be a king for that day than a fool for life," he added.

■ The Swedish krona bounced yesterday, recovering strongly from an initial sell-off on the back of the resignation of Erik Asbrink, the finance minister.

The market took the surprise departure badly, marking down the krona below SKr9.0 against the euro on the expectation of looser fiscal policy to come and a move away from the market-oriented slant of Mr Asbrink.

But despite the announcement of Bosse Ringholm, widely regarded as a relative political lightweight with no power base of his own, the krona rallied against the euro to end the day little changed. At the end of London trading yesterday it was at SKr8.969 against the euro, close to its level last week.

Analysts took a fairly dim view of Mr Ringholm's appointment, saying that he was likely to offer little resistance to the relatively expansionary fiscal plans of Goran Persson, the prime minister. "The new finance minister will be not be able to push his own policies," said Peter Lindqvist at HSBC in Stockholm.

The fact that Mr Ringholm's appointment was welcomed by the Left Party, the SDP's more radical coalition partner, also suggested that his arrival at the finance ministry helm represented a shift to the left.

But Mr Lindqvist said that Mr Asbrink's departure could have some positive effects. "The market hates uncertainty, and the previous dissent within the government was a negative for the krona," he said. "That has now been removed."

■ POUND IN NEW YORK

Apr 12	—Latest—	— Prev. close —
£ spot	1.6135	1.6080
1 mth	1.6129	1.6075
3 mth	1.6123	1.6070
1 yr	1.6124	1.6077

■ OTHER CURRENCIES

Apr 12	£	$
Czech Rp	[illegible] - 58.1342	35.0[illegible] - 36.1[illegible]
Hungary	378.844 - 379.450	234.680 - 234.910
[illegible]	4845.90 - 4842.90	3000.00 - 3000.00
Kuwait	0.4920 - 0.4928	0.3046 - 0.3057
Peru	5.4265 - 5.4071	[illegible]
Poland	6.3821 - 6.3942	[illegible]
[illegible]	41.8104 - 42.8[illegible]	25.[illegible] - 26.5[illegible]
U.A.E.	5.9290 - 5.9332	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

INTERNATIONAL CURRENCY RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Exeter Trust Limited	6.25	Smith & Williamson	5.25
Allied Irish Bank (GB)	5.25	●Robert Fleming & Co	5.25	Sun Bank	5.25
●Henry Ansbacher	5.25	Habib Bank AG Zurich	5.25	TSB	5.25
Banco Bilbao Vizcaya	5.25	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.25	C. Hoare & Co	5.25	Unity Trust Bank Plc	5.25
Bank of Ireland	5.25	●SG Hambros Bank & Trust	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Hongkong & Shanghai	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	Investec Bank (UK) Ltd	5.25		
Barclays Bank	5.25	Julian Hodge Bank	5.25		
Brit Bk of Mid East	5.25	●Leopold Joseph & Sons	5.25		
●Brown Shipley & Co Ltd	5.25	Lloyds Bank	5.25		
Citibank NA	5.25	Midland Bank	5.25		
Clydesdale Bank	5.25	NatWestminster	5.25		
The Co-operative Bank	5.50	●Rea Brothers	5.25		
Coutts & Co	5.25	Royal Bk of Scotland	5.25		
Cyprus Popular Bank	5.25	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.25		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

LME to retain 'open outcry' trading system

By Gillian O'Connor in London and Nikki Tait in Chicago

The London Metal Exchange, the world's leading metal market, has decided to retain its century old "open outcry" ring-dealing trading system for the foreseeable future.

The decision came as the London International Financial Futures and Options Exchange moved its gilt contract to automated trading.

Liffe is in the middle of moving all its financial contracts away from open outcry, but has taken no decision on whether to do the same with its commodity contracts (coffee, cocoa, wheat, barley, freight rates and potatoes). Sugar is the only one traded electronically.

David King, chief executive of the London Metal Exchange, which trades aluminium, tin, copper, lead, zinc and nickel, and plans soon to introduce an index contract and a silver contract, said the open outcry system is "sacrosanct".

The number of firms participating in the ring-dealing system, in which dealers shout at each other across a trading ring several times a day in a price discovery process, has shrunk from 30 to 15 in the past decade, though complementary forms of membership have risen.

The LME argues says the costs of the present system are so low there would be no cost advantage in switching and that [unlike Liffe] it has no serious competition in most of its markets.

The decision to stick with open outcry was taken after completion of a study by PwC and its own executive staff. Its belief in the present system is shown by the fact that it is currently negotiating an extension of its premises at 58 Leadenhall Street for a further five years.

However, the exchange has now retained PA Consulting to develop an out-of-hours automated trading system, for use at times other than the ring-dealing sessions Mr King said no decision has been taken on whether this would replace or run in parallel with the existing 24-hour telephone market.

To date, competition has forced the switch from traditional pit-based "open outcry" trading to screen-based systems mainly in the area of financial products.

In Europe, Liffe is initially introducing its electronic Liffe Connect system for financial contracts, while in the US, both the Chicago Board of Trade and the Chicago Mercantile Exchange are running or plan to run electronic trading systems alongside floor-based trading for leading contracts.

The Chicago exchanges have made no moves to introduce daytime screen-based trading for their big agricultural divisions. The New York Mercantile Exchange, which competes with the LME in some contracts, and the New York Board of Trade, which has an agricultural division, also remain predominantly open-outcry.

Mexicans come to terms with a revolution in tortilla production

The country's first corn exchange is trying to fill the vacuum left by the liberalisation of the industry after nearly a century of regulation, writes **Andrea Mandel-Campbell**

The nondescript metal door is easily missed along the busy highway, half hidden by a dusty sidewalk display of kitchen sinks and bathroom tiles. Inside, buyers and sellers mingle among plastic garden chairs at the modest new headquarters of Mexico's first corn exchange.

Launched in February, the exchange is the first attempt to fill the vacuum left since the Mexican government liberalised the tortilla industry after nearly a century of regulation.

In January, the government put an end to more than 4bn pesos ($417m) in annual subsidies, removed production quotas on corn mills and lifted price caps on the flat maize pancake that is Mexico's staple food.

After a pep talk by organisers explaining the ins and outs of the exchange's electronic system and the merits of anonymous trading, three sales were made to corn millers in Michoacan state.

The going price was 400 pesos per tonne – more than the millers were used to paying when the government was the middleman. Maize was previously bought from farmers at artificially depressed prices and re-sold to the mills at an even lower cost, but while the price is higher now so is the quality, says Victor Uvera Medina, miller and tortilla producer in Acapulco.

"This is our future," says Mr Uvera. "This is the beginning of a new era in the evolution of maize marketing."

Once fully operational in July, corn farmers and millers will be able to tap into any of 50 online offices in Mexico's 32 states, say officials of the Maize Tortilla Club, the organisers of the exchange.

The co-operative predicts that by next year it will be moving 2m tonnes of corn annually from total national production of 18.5m tonnes.

First, however, the exchange will have to overcome the mistrust of farmers, who are unfamiliar with the process and wary after years of dealing with corrupt government officials.

So dubious was Conasupo, the government agency formerly responsible for maize commercialisation, that banks refused to accept harvest deposit receipts issued by the agency as equity on loan applications by farmers, says Abel Castellanos, president of the National Union of Maize Producers.

"There is a lot of fear," says Mr Castellanos. "It's been 30 years since buyers and sellers have dealt directly with each other."

The result has been a slow decline throughout the tortilla chain of production. Farmers, millers and tortilla manufacturers, faced with depressed prices and scarce credit, have been reluctant to invest in new technology.

Corn yields, as a consequence, average less than three tonnes a hectare, compared with triple that in the neighbouring US, while the tortilla market remains far behind the US and Central America in the development of products ranging from low-cholesterol to bean-flavoured tortillas.

However, all that is expected to change. Since the industry has been opened up, farmers have been paid as much as 30 per cent more for their crops. Long-suspended genetic research into protein-enhanced maize seeds has restarted, with the expected commercial launch next year of the seeds as a dietary supplement for the poor, says Mr Castellanos.

The once sluggish tortilla market has also become fiercely competitive. After prices shot up by as much as a third following the removal of price caps, public outcry forced the industry to come to a gentleman's agreement to charge 3.50 pesos per kilo.

However, some manufacturers are already undercutting the consensus price while others are looking to carve out a niche with new product offerings and the goal of turning the tortilla from commodity into a brand.

The Tortilla Factory, a combination tortilla manufacturing plant, fast food outlet and convenience store, is one example of things to come.

Established as a pilot project three years ago in anticipation of the market deregulation, the owners are now looking to franchise the enterprise, which offers a modern version of a centuries-old tradition.

Those with the most to gain, however, are corn-flour manufacturers – in particular, Grupo Industrial Maseca, which has a 70 per cent share of the market, representing 44 per cent of all tortillas made.

The rest of Mexico's annual 14.4m tonnes of tortilla production is made from corn dough, an ancient process dating from Aztec times, in which boiled corn is mixed with lime and fermented for eight hours.

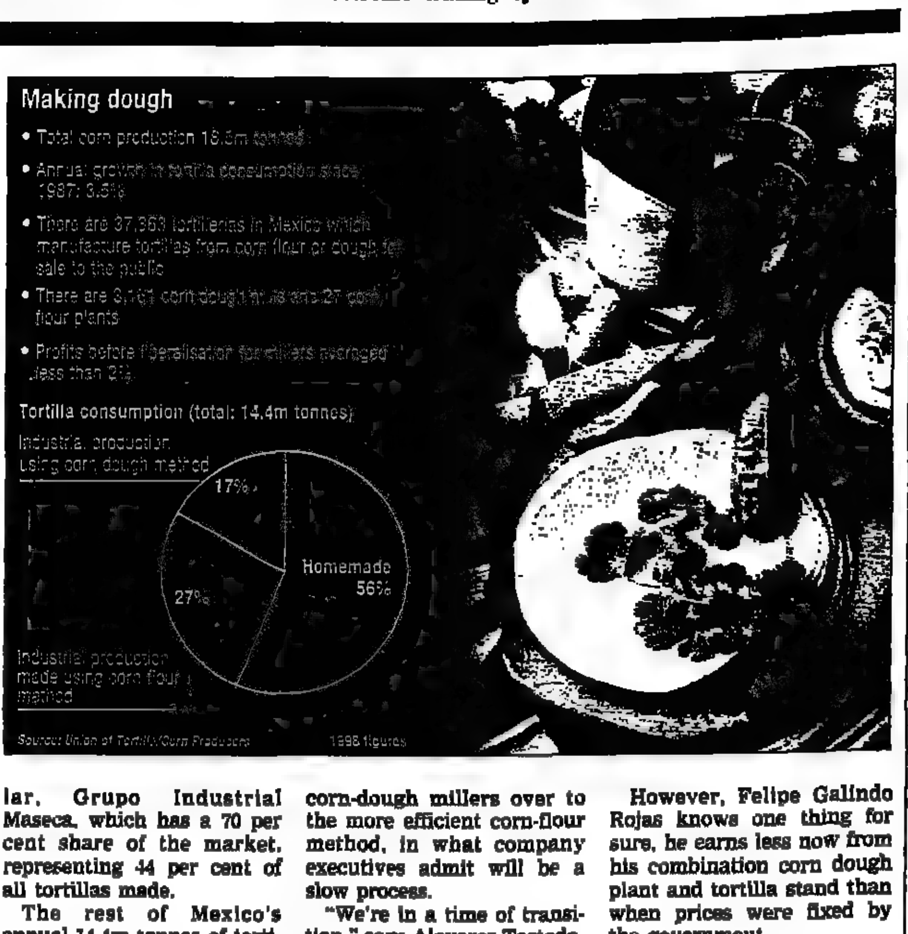
Maseca estimates it will increase production volume by 16 per cent this year after government quotas caused a slump in sales and a decline in profits in recent years. To do that Maseca plans to lure corn-dough millers over to the more efficient corn-flour method, in what company executives admit will be a slow process.

"We're in a time of transition," says Alavarez Tostado, Maseca general director. "The government can free up the market from one day to the next, but the culture doesn't change as quickly. A tortilla maker who managed within a completely rigid, government-controlled scheme a few weeks ago is not a man who now knows what is supply and demand, price, profit and volume – that will take time."

However, Felipe Galindo Rojas knows one thing for sure, he earns less now from his combination corn dough plant and tortilla stand than when prices were fixed by the government.

The 68-year-old tortilla veteran is one of 15,000 mill and 35,000 tortilla factory-owners threatened with a predicted consolidation of the industry in favour of larger, more efficient producers.

"The price of corn is higher and profits are not in line with investments," says Mr Galindo. "Before, you invested less, made less, but your profits were assured."



Gold rises on jump in short positions

MARKETS REPORT

By our financial staff and agencies

Gold prices finished higher in London yesterday at $283.30 a troy ounce compared with Friday's close in New York of $280.80, thanks to short positions taken by investment funds.

Dealers said gold rose after Friday's release of the latest Commodity Futures Trading Commission commitments of traders report, which showed a sharp increase in net short speculative positions, up 32,797 lots to 91,690 lots or about 9.16m ounces.

"We thought it might try higher with $285 being broken – it seems to be capped at $284.50," said one dealer. "It was fund-buying on the floor, a bit of short covering with the CFTC figures coming out and showing the Comex market is extremely short."

The imminent wedding season in India promises to lift demand in coming weeks as it is being accompanied by a bumper agricultural crop. Importers in Ahmedabad, the main centre for importing bullion, expect imports to rise to 10,000 TT bars (each 116.64 grams) a day by early May.

Cocoa firmed on Liffe after last week's slump, with May delivery rising £1 to close at £780 per tonne and July's up £5 to £803. This was attributed to the absence of funds taking short positions, again indicated in the CFTC fortnightly report.

Separately, Bloomberg yesterday reported that Barry Callebaut AG, the Swiss chocolate group, is so concerned about the October deregulation of the cocoa industry in the Ivory Coast – which grows 40 per cent of the world's crop – that it has accumulated enough stock to make 5bn pounds of milk chocolate.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1253-54	1274-75
Previous	1241.5-42.5	1263-64
High/low		1282/1272
AM Official	1256.5-7.0	1277-7.5
Kerb close		1271-2
Open int.	232,289	
Total daily turnover	72,988	

ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1141-42	1162-63
Previous	1134-39	1155-60
High/low		1170/1163
AM Official	1143-5	1167-9
Kerb close		1160-65
Open int.	9 001	
Total daily turnover	1,278	

LEAD ($ per tonne)

	Cash	3 mths
Close	495.5-6.5	499-500
Previous	502-3	503.5-4
High/low		504/499
AM Official	501-1.5	503-4
Kerb close		502-3
Open int.	39,184	
Total daily turnover	12,937	

NICKEL ($ per tonne)

	Cash	3 mths
Close	4920-30	4985-90
Previous	4970-80	5040-50
High/low		5050/4980
AM Official	4930-35	5000-10
Kerb close		4995-5005
Open int.	60,677	
Total daily turnover	10,947	

TIN ($ per tonne)

	Cash	3 mths
Close	5280-90	5265-70
Previous	5330-40	5290-300
High/low		5285/5265
AM Official	5295-300	5280-85
Kerb close		5280-85
Open int.	18,560	
Total daily turnover	5,861	

ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	982-83	1007-2
Previous	987-8	1006-07
High/low		1013/1002
AM Official	986-8.5	1006-7
Kerb close		1005-6
Open int.	92,210	
Total daily turnover	19,964	

COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1396.5-7.5	1404-5
Previous	1398-99	1424.5-25
High/low		1446/1422
AM Official	1403-4	1423-3.5
Kerb close		1402-3
Open int.	170,485	
Total daily turnover	42,550	

LME AM Official £/$ rate: 1.6165
LME Closing £/$ rate: 1.6135

Spot: [illegible]

HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	63.20	-1.00	63.40	63.05	315	534
May	63.55	-1.00	64.55	63.35	10,575	33,021
Jun	64.00	-1.00	64.20	64.10	22	2,154
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PRECIOUS METALS

[illegible]

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	282.8	+1.3	284.2	283.4	141	350
Jun	284.5	+1.1	286.2	283.0	21,096	128k
Aug	286.5	+1.1	288.0	286.4	205	10,140
Oct	288.5	+1.1	289.9	290.3	158	3,453
Dec	290.3	+1.1	292.0	290.1	179	15,717
Total					21,847	160,910

PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	359.6	+1.9	361.0	361.0	11	144
Jul	361.5	+1.4	364.0	361.0	1,335	9,570
Oct	362.5	+1.4	364.0	364.0	11	1,227
Jan	363.1	+1.4	-	-	20	140
Total					1,396	11,082

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	356.25	+1.50	356.00	352.75	98	2,713
Sep	360.25	+1.50	-	-	-	228
Dec	353.25	+1.50	-	-	-	126
Mar	350.25	+1.50	-	-	-	15
Total					98	3,082

SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	489.5	-3.5	500.5	498.5	19,860	41,745
Jul	492.1	-3.1	503.0	492.5	6,874	19,765
Sep	494.3	-3.5	503.0	500.0	99	5,923
Dec	496.5	-3.3	506.0	498.5	308	11,173
Jan	495.9	-3.3	-	-	-	16
Mar	498.7	-3.5	-	-	121	2,459
Total					27,492	86,871

ENERGY

CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	16.44	-0.13	16.74	16.33	84,868	124k
Jun	16.47	-0.09	16.63	16.38	45,208	110k
Jul	16.44	-0.09	16.56	16.36	20,952	71,328
Aug	16.34	-0.08	16.38	16.28	5,425	34,468
Sep	16.21	-0.09	16.22	16.21	3,849	20,011
Oct	16.08	-0.10	16.09	16.08	1,217	20,627
Total					176,316	614,957

CRUDE OIL IPE ($/barrel)

[illegible]

HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

GAS OIL IPE ($/tonne)

[illegible]

NATURAL GAS IPE (1,000 therms; pence per therm)

[illegible]

NATURAL GAS NYMEX (10,000 mmbtu; $/mmbtu)

[illegible]

UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	74.80	-0.20	75.25	76.00	60	2,532
Jul	76.60	-0.20	77.00	77.00	32	2,824
Sep	74.60	-0.40	-	-	-	178
Nov	76.50	-0.25	76.90	76.50	17	3,110
Jan	78.40	-0.35	-	-	-	594
Mar	80.40	-0.20	-	-	-	113
Total					109	8,166

WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	258.75	-7.00	268.00	258.00	7,298	34,774
Jul	269.25	-7.00	278.50	268.50	15,177	55,457
Sep	280.00	-6.50	289.00	279.00	967	8,719
Dec	294.75	-6.25	305.00	293.75	917	15,280
Mar	304.50	-6.50	314.50	304.00	182	3,471
Jul	320.00	-6.00	328.00	319.00	24	348
Total					24,624	118,034

MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	214.25	-3.50	219.00	214.00	22,307	100,420
Jul	218.75	-4.00	225.50	219.25	11,776	108,621
Sep	226.25	-4.25	231.25	226.00	1,305	25,446
Dec	234.50	-4.50	240.50	234.25	9,316	88,148
Mar	243.75	-3.75	248.75	243.50	198	14,700
May	248.00	-4.00	251.50	248.00	59	1,120
Total					45,112	344,194

BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	73.00	-0.50	-	-	-	149
Sep	74.00	-0.25	-	-	-	40
Nov	76.00	-0.25	-	-	5	387
Jan	78.00	-0.25	-	-	-	30
Mar	80.00	-0.25	-	-	-	-
Total					-	606

SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	479.75	-0.75	485.00	477.75	22,308	52,850
Jul	488.75	-0.25	494.00	486.50	7,580	50,258
Aug	491.75	-0.25	496.50	489.75	703	14,811
Sep	494.25	-0.50	499.50	493.00	82	7,502
Nov	503.50	-0.50	509.00	501.00	3,483	36,547
Jan	514.00	-0.75	517.00	512.00	175	1,848
Total					34,349	166,305

SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	18.55	-0.06	18.60	18.51	6,020	36,098
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

PULPEX OMLX (SEK; 24 air dry tons)

[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

FUTURES DATA
All futures data supplied by CMS.

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	780	+1	786	772	1,312	42,389
Jul	801	+3	809	794	1,014	18,508
Sep	820	+3	827	811	677	29,680
Dec	845	+3	853	837	518	27,253
Mar	868	+3	876	859	161	17,876
May	890	+3	886	885	12	17,105
Total					4,097	161,765

COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1102	+4	1107	1093	6,377	16,007
Jul	1133	+4	1137	1124	4,072	21,895
Sep	1163	+2	1166	1156	1,165	9,382
Dec	1204	+2	1208	1197	342	8,673
Mar	1245	-	1243	1243	1,422	8,089
May	1270	-	1269	1269	492	3,908
Total					13,878	68,416

COCOA (ICCO) (SDR's/tonne)

Apr 9	Price	Prev. day
Daily	868.20	879.29

COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1483	+19	1489	1470	2,702	27,557
Jul	1478	+14	1486	1465	3,259	19,754
Sep	1492	+17	1498	1480	936	7,674
Nov	1509	+18	1514	1496	148	2,175
Jan	1512	+21	1517	1508	34	605
Mar	1518	+21	1515	1515	13	139
Total					7,085	57,904

COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	97.60	-1.45	99.50	97.00	7,229	15,405
Jul	99.05	-1.60	101.40	99.00	12,270	17,285
Sep	101.30	-1.80	103.25	101.25	3,404	8,601
Dec	103.75	-1.10	105.50	103.50	1,816	4,230
Mar	105.45	-0.80	107.25	105.75	498	1,462
May	107.05	-1.00	108.50	105.50	116	218
Total					25,339	48,236

COFFEE (ICO) (US cents/pound)

Apr 12		Prev. day
Comp. daily	84.94	85.68
15 day average	88.73	88.95

WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

INDICES

[illegible]

Minor Metals from Metal Bulletin

[illegible]

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	67.275	-0.475	67.900	67.050	5,946	19,789
Jun	65.000	-0.200	65.475	64.875	9,519	49,329
Aug	63.275	-0.150	63.650	63.200	1,379	21,017
Oct	65.100	-0.325	65.575	65.025	572	11,686
Dec	66.925	-0.175	67.250	66.850	357	5,516
Feb	68.275	-0.175	68.500	68.200	148	2,051
Total					18,036	110,225

LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	42.275	+0.100	42.450	42.050	1,679	3,871
Jun	56.825	+1.100	56.000	54.800	4,051	16,811
Jul	57.325	+1.175	57.400	56.100	817	6,180
Aug	57.350	+0.825	57.650	56.675	593	5,624
Oct	55.175	+0.650	55.325	54.450	404	7,139
Dec	55.575	+0.700	55.700	54.850	310	3,497
Total					1,868	16,299

PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
May	54.000	+3.000	54.000	51.000	546	3,004
Jul	55.200	+3.000	55.200	52.000	85	1,522
Aug	53.450	+2.425	54.025	51.350	17	465
Total					8,146	46,021

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
ALUMINIUM (99.7%) LME	May	Aug	May	Aug
1250	29	64	18	38
1300	9	40	48	63
1350	2	24	91	96
COPPER (Grade A) LME	May	Aug	May	Aug
1350	68	118	10	34
1400	38	86	28	54
1450	16	62	57	78
COFFEE LIFFE	May	Jul	May	Jul
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COCOA LIFFE

[illegible]

BRENT CRUDE IPE

[illegible]

LONDON SPOT MARKETS

[illegible]

JOTTER PAD

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

CROSSWORD

No.9.96 Set by HIGHLANDER

ACROSS

1 Still accepts first piece of information (6)
6 One side of face covered by poet's whiskers (8)
9 Substantial part in popular Gershwin musical (5)
10 Pub accepts wager (small) from an intermediary (2-7)
11 Where astronauts go routes are subjected to warp speed (5,5)
12 Fashion which abandons line is painful on the eye (4)
14 Unwilling to change colour, they say forcefully (3-4)
15 On the organ each variation is a pain for the listener (7)
17 Without a goal it's pointless (7)
19 Takes offence at money paid to house stock exchange (7)
20 This source of light needs an electric current (4)
22 Cancer on the tail of insect and marine crustacean (6,4)
25 Electromotive force on eastern front is a reversal for the French (5-4)
26 Contradict some of the more prominent non-believers (5)
27 Jumped on education authority sports training (5)
28 Instruct class to produce list of available merchandise (5,4)

DOWN

1 Oval's damaged in concentrated fire (5)
2 A rare mist dispersed by wind at high altitudes (9)
3 One can afford passage north in the winter (10)
4 Made an effort to go round very quietly but stumbled (7)
5 Separate section of room, a solid square in shape, for auditor (7)
6 Make the effort to come clean in Avon (4)
7 Porter starts to realise train is on guard (5)
8 Needs guns repositioned in Kent headland (9)
13 One who specifies medication before the writer, right? (10)
14 Catch up with tug, even (4,5)
16 Singer is against taking on a new lot (9)
18 Singer – take note – dashed into Post Office (7)
19 Revolutionary leader, one who's neither blond nor brunette (7)
21 Whisky area in the Mediterranean (5)
23 Freshwater fish or bedhead with lots of sheets on (5)
24 First of Parisians caught in the rain was tearful (4)

Solution to Saturday's prize puzzle on Saturday April 24.
Solution to yesterday's prize puzzle on Monday April 26.

هكذا من الأصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

CAYMAN ISLANDS (REGULATED)(**)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

Offshore Funds and Insurances

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JERSEY
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(FSA RECOGNISED)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

هكذا من الاصل

Gold rises on jump in short positions

FT MANAGED FUNDS SERVICE

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[illegible]

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

● MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

AEROSPACE & DEFENCE

AUTOMOBILES

BANKS

BEVERAGES

CHEMICALS

CONSTRUCTION & BUILDING MATERIALS

CONSTRUCTION & BUILDING MATERIALS - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQUIPMENT

ENGINEERING & MACHINERY

ENGINEERING & MACHINERY - Continued

FOOD & DRUG RETAILERS

FOOD PRODUCERS & PROCESSORS

FOOD PRODUCERS & PROCESSORS - Continued

FORESTRY & PAPER

GAS DISTRIBUTION

GENERAL RETAILERS

HEALTH

HOUSEHOLD GOODS & TEXTILES

HOUSEHOLD GOODS & TEXTILES - Continued

INFORMATION TECHNOLOGY HARDWARE

INSURANCE

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MINING - Continued

REAL ESTATE - Continued

SPECIALITY & OTHER FINANCE - Continued

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

STEEL & OTHER METALS

AIM - Continued

LEISURE, ENTERTAINMENT & HOTELS

OIL & GAS

REAL ESTATE - Continued

SUPPORT SERVICES

AIM

Alternative Investment Market

LIFE ASSURANCE

PACKAGING

RESTAURANTS, PUBS & BREWERIES

MEDIA & PHOTOGRAPHY

PERSONAL CARE & HOUSEHOLD PRODUCTS

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REAL ESTATE

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The FT web site

London finds shelter away from Compaq squalls

MARKET REPORT

By Peter John

There were hailstones over the London Stock Exchange yesterday, but the financial weather in the City was more seasonal – showers interspersed with occasional sunny spells.

The dampness blew over from the US, where Compaq, the world's largest personal computer maker, warned late on Friday that profits would be hit by poor sales and tough competition.

That sparked off an area of market low pressure throughout the high-performing technology stocks. Over the weekend it deepened and travelled towards the UK.

By yesterday morning the winds had hit and London traded down almost 100 points, while the US S&P futures hinted at a fall of at least 120 points when the Dow Jones Industrial Average opened later.

But it had effectively run its course and it looked like the computer maker's profit warning was just a local phenomenon.

Although Compaq shares were off another 25 per cent at worst yesterday, they recovered later – as did the markets that were suffering on their behalf.

The Dow was up during London trading and continental bourses ended flat after being sharply down first thing. Bond markets were also solid.

As for the Footsie, it climbed steadily to close only 31.6 lower at 6,441.2. The lesser indices were firmer still, the FTSE 250 losing just 4.6 at 5,558.9 and the SmallCap dropping 5.4 to 2,417.9.

Most of the good news was at the lower end of the market valuation scale. The mid cap index was boosted by bids for Kwik-Fit and, later, for Laporte, the speciality chemicals group. The small-cap index was helped by confirmation of an offer for Game, the computer software retailer.

However, the trend spread to the Footsie when Dixons announced it was exploring whether to float its Freeserve internet operation. The shares, which might have been an easy target for Compaq-related selling having more than doubled since Freeserve was launched, ended nearly 8 per cent up.

"All the Compaq affair has shown is that you have to pick the right stocks," said David Butler, head of sales at Teather & Greenwood.

"Interest rates are definitely going lower; you have mergers and acquisitions out there; you have the convergence argument and this market is cheap in relation to other markets. I don't think there's much danger of it falling back too far."

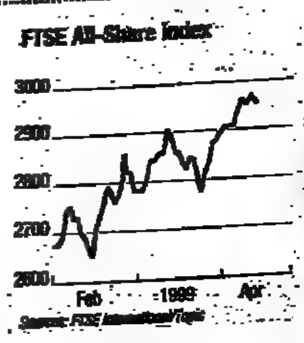
However, the opportunity for Footsie to stow its sou'wester might be a few days away. There is very little domestic corporate or economic news this week.

There might be a broad consensus that rates have at least a quarter point further to fall, but strategists are looking ahead to next week's slew of data before they make up thir minds about the timing of the next shift.

Next week sees the release of minutes from the last Bank of England monetary policy committee meeting, producer prices, retail sales data, public borrowing figures and the latest CBI industrial trends survey.

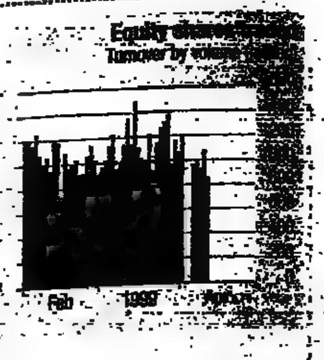
Turnover recorded at 6pm was 900m shares, with activity weighted in favour of Footsie stocks.

FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded
Turnover by volume



Indices and ratios

FTSE 100	6441.2	–31.6
FTSE 250	5558.9	–4.6
FTSE 350	3056.8	–13.1
FTSE All-Share	2956.36	–12.43
FTSE All-Share yield	2.28	2.27

FT 30	3936.6	–5.6
FTSE Non-Fins p/e	28.37	28.55
FTSE100 Fut Jun	6512.5	–3.5
10 yr Gilt yield	4.57	4.58
Long gilt/equity yld ratio	2.01	2.02

Best performing sectors

1 Distributors +3.6
2 Chemicals +2.9
3 Automobiles +2.1
4 Cyclical Consumer Goods +1.8
5 Packaging +1.4

Worst performing sectors

1 Gas Distribution –3.2
2 Telecommunications Services –1.5
3 Utilities –1.3
4 Support Services –1.3
5 Non Cyclical Services –1.2

Dixons casting its net

COMPANIES REPORT

By Joel Kibazo and Martin Brice

Sector specialists were hunting likely bid targets for Dixons after the high street electrical goods retailer said it wanted to float Freeserve, its free internet service.

The announcement late yesterday was far from a surprise for a market that has sent the company shares soaring over the last six months on the back of the Freeserve's potential.

Dixons appointed Credit Suisse First Boston and Cazenove to explore strategic alternatives for Freeserve, including the sale of a minority stake.

One analyst said: "I think Dixons is looking to make an internet-related paper acquisition. Following this route should enable it to raise the rating of its stock before making a move."

Valuations on Freeserve vary, but several sector specialists were pointing to a figure above £2bn or around 500p per Dixons share.

Dixons has more than doubled since Freeserve was launched in September 1998. Yesterday's news helped the shares add another 114 or nearly 8 per cent to £15.64, easily the best performer in the Footsie.

Sentiment was further enhanced by a "buy" recommendation from Warburg Dillon Read.

A bid from Ford, the US car maker, made Kwik-Fit Holdings a stellar performer. The shares closed almost 29 per cent ahead, up 119½ at 541p with 11m shares traded.

The offer of 560p in cash was 21 times next year's forecast earnings. The Mid-Cap team at Dresdner Kleinwort Benson told clients: "We do not think the bid is particularly stretching. However, the likelihood of a counter-bid against Ford's deep pockets is slim and with it being an agreed bid, it is unlikely shareholders will try to squeeze a higher price out of Ford."

Ford's move to increase its exposure to the service side of vehicle provision prompted traders to talk of a trend towards greater vertical integration among vehicle manufacturers, and led to a rise of almost 9 per cent or 38½ to 469p in Lex Service.

The stock has enjoyed the effects of a move by Warburg from "hold" to "buy" last week, and a reiteration of a "buy" stance from Kleinwort following a recent set of results. Its sales team was yesterday known to be emphasising to clients the attractions of Lex as the management restructured the company towards pan-European vehicle out-sourcing.

It was a mixed day in the utilities. Scottish & Southern Energy jumped 13 to 578p. Goldman Sachs has been marketing the shares in the US and dealers spoke of a good-sized US order for the stock during the session.

Salomon Smith Barney has recently upgraded its recommendation from "outperform" to "buy" saying: "The recent share price performance is only partially justified by the de-rating of defensive utility stocks in general." Salomons has a 693p target on the stock.

Among the food retailers, Tesco stood out as one of most heavily traded shares in the FTSE 100 with turnover of 36m ahead of full-year results today.

BT Alex Brown, one of the company's brokers, predicts a 6.5 per cent rise in profits to £870m. Tesco also confirmed weekend press reports that it plans to create an extra 10,000 jobs.

Asda improved 1¼ to 149¼p, but sellers had the upper hand among other leading stocks in the sector. J Sainsbury eased 4 to 373½p on speculation that the company might announce wide-ranging changes with its quarterly results on Friday.

Weekend press reports suggested the food retailer could announce swingeing jobs cuts at its headquarters. One report also suggested the possible sale of part of the Sainsbury family stake. However, dealers were suggesting the job cuts would only form part of a series of measures to boost the company's performance.

Credit Suisse First Boston was said to be among those urging investors to sell the shares.

Kingfisher comment

In the general retailers, positive press comment and a general feeling that Kingfisher deserves to trade at a higher rating saw the shares harden 11 to 901p.

Boots was up as the group announced plans to open its first Health and Beauty store in Japan in an alliance with Mitsubishi. The shares rose 8 to 841½p. Profit-taking left Marks and Spencer 6½ lighter at 415½p.

The long-rumoured move by Clariant, the Swiss chemicals company, for Laporte was flagged yet again in the weekend press, and prompted the usual reaction. Laporte was ahead 11 per cent in early trading but surged higher on confirmation later it was in talks. It closed ahead almost 30 per cent or 172 to 762½p.

The move was seen as continuing the trend of consolidation in chemicals, and the positive sentiment spread to other groups. Yule Catto was ahead almost 9 per cent, or 25 to 305p, while Croda International gained 14 to 238½p. BTP gained 21½ to 369p and British Vita rose 11½ to 230½p.

Drinks group Scottish & Newcastle brushed aside recent bearish stories and moved 11½ ahead to 647p.

HSBC Securities was said to have been reassured that current expectations could be met after a recent meeting with the company.

Pharmaceuticals group Medeva was the worst performer in the FTSE 250 after the US Food and Drug Administration said it would need additional information before it accepted the company's licence application for Hepagene hepatitis B vaccine for review.

Pilat Technologies, the Aim-quoted technology stock, more than trebled, gaining 25 to 36½p as it announced the first sales of its new software to New Zealand broadcasters.

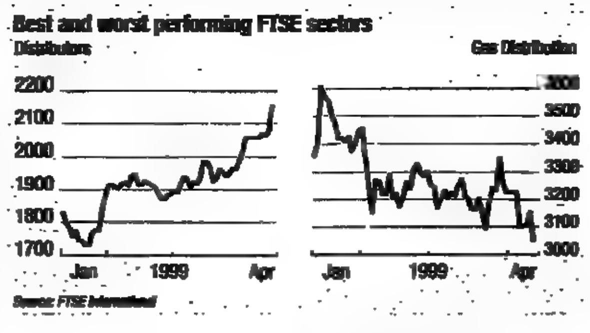
The profits warning from Compaq in the US threw the spotlight onto technology stocks but the effect was less than feared.

While Misys was off 16 at 552½p, the volume of 3.2m was not busy. Others suffered slightly, but Sage was off a mere 2½ at £22.37½.

The effect was felt more markedly among the smaller but highly rated companies, although again the volume was not particularly high. Admiral fell 37½ to 217½p.

Kewill Systems moved against the falling tide and gained 17½ to £14.30 after Teather & Greenwood highlighted the exposure of the software group to the potential of e-commerce.

Best and worst performing FTSE sectors



Source: FTSE International

FT 30 INDEX

	Apr 12	Apr 9	Apr 8	Apr 7	Apr 6	Yr ago	*High	*Low
FT 30	3936.8	3942.2	3983.9	3905.5	3873.3	3855.7	4004.9	2790.8
Ord. div. yield	2.62	2.62	2.64	2.63	2.65	[illegible]	4.22	2.72
P/E ratio net	24.07	24.06	23.88	23.94	23.73	24.89	25.41	15.80
P/E ratio nil	24.00	23.98	23.80	23.86	23.67	34.77	25.19	[illegible]

FT 30 since compilation: high 4004.9 7/1/99; low 49.4 26/6/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3942.2	3908.3	3923.7	3920.5	3904.9	3903.9	3918.9	3933.3	3943.8	3897.4

STOCK MARKET TRADING DATA

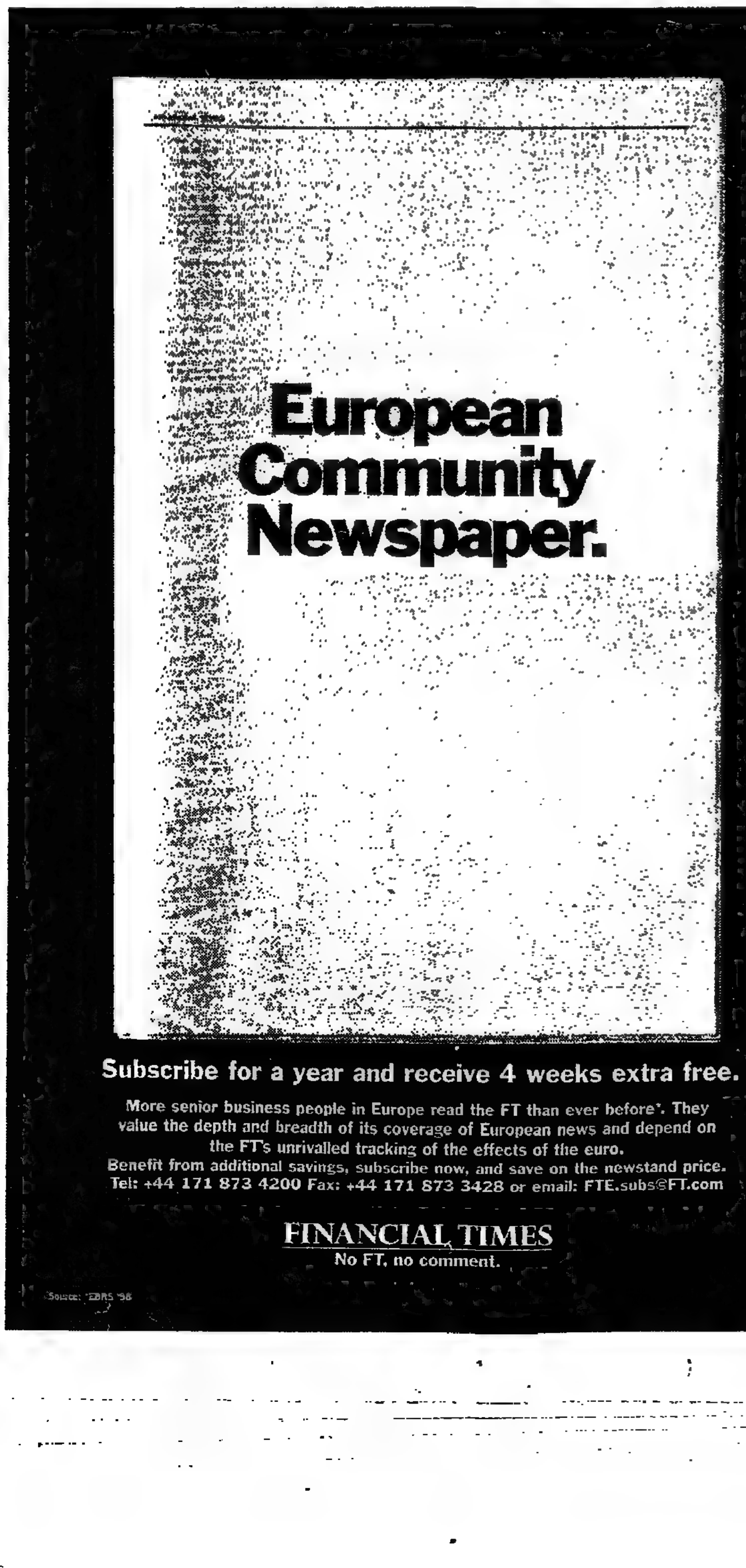
	Apr 12	Apr 9	Apr 8	Apr 7	Apr 6	Yr ago
SEAQ bargains	81,479	88,365	88,273	87,297	102,707	[illegible]
Equity turnover (£m)†	-	-	4870.8	5341.9	6051.4	[illegible]
Equity bargains†	-	-	78,780	80,396	[illegible]	[illegible]
Shares traded (m)†	-	-	1026.7	986.2	1102.1	[illegible]
Total market bargains‡	-	92,876	96,947	[illegible]	110,790	-
Total turnover (£m)‡	-	6626.8	7102.8	[illegible]	8323.1	-
Total shrs traded (m)‡	*870.8	1307.8	1269.7	[illegible]	1452.8	-
Tradepoint turnover (£m)	[illegible]	24.8	21.2	32.5	21.0	38.9
Tradepoint shrs traded(m)	8.1	12.4	8.4	9.8	9.7	7.2

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	878	Total Highs	83	Total contracts	[illegible]
Total Falls	905	Total Lows	24	Calls	[illegible]
Same	1,385			Puts	[illegible]

Apr 12 *Data based on Equity shares listed on the London Share Service.



FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6490.0	6475.0	-38.0	6527.0	6410.0	19288	201629
Sep	6489.0	6524.0	-37.0	6489.0	6489.0	750	4322
Dec	-	6582.0	-37.0	-	-	0	700

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	5559.0	-5.0	-	-	0	7360

■ FTSE 100 INDEX OPTION (LIFFE) (*6441) £10 per full index point — Apr 12

	6250 C	6250 P	6300 C	6300 P	6350 C	6350 P	6400 C	6400 P	6450 C	6450 P	6500 C	6500 P	6550 C	6550 P	6600 C	6600 P
Apr	292	11½	158½	18	138	27½	89	42	65	63½	38	91	18	125	8½	167½
[illegible]	311½	105½	274	118½	240	134½	209½	154	179½	174	149½	194½	127	221½	105	250
Jun	378½	158	344½	173½	314	193	283½	212½	253	232	222½	251½	196	275½	173½	303
Jul	434½	200	404½	219	374½	238	344½	257½	314½	276½	284½	298½	256	318½	234½	348
Dec†			488	418½			609½	448½			550½	489			486½	532

Calls 975 Puts 1,050

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Apr 12

	6275 C	6275 P	6325 C	6325 P	6375 C	6375 P	6425 C	6425 P	6475 C	6475 P	6525 C	6525 P	6575 C	6575 P	6625 C	6625 P
Apr	180	12	137	16	99	31½	67	49	41½	73½	23	105	11½	143½	5	187
May	265	101½	231	117	219½	135	189	155	163	177½	137	201½	118½	228	98	257
Jun	355	161	326½	178	295½	186½	265	215½	238½	236½	218½	260	194	283	181½	310
Sep			467	302½			453	336½			375½	376½			382	420½
Dec†			671½	424			596½	445			533½	479			478	518½

Calls 1,382 Puts 2,640 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1999 High	1999 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	30.6	142	99½	BGI Endowment II	142		–	–	–	–
100	F.P.	–	95	95	Br Smlr Cos VCT	95		–	–	–	–
–	F.P.	–	12½	12½	Do Warrants	12½		–	–	–	–
–	F.P.	18.4	119½	95½	[illegible]	111	–1	–	–	–	–
–	F.P.	8.85	27	17½	Do Wts	19½	–2½	–	–	–	–
§	F.P.	–	167½	105	Edinburgh [illegible]	105½		–	–	–	–
§	F.P.	–	108	100½	Edinburgh Val ZDP	102½	–½	–	–	–	–
–	F.P.	98.9	103½	99	Enhanced Zero Tst	99½		–	–	–	–
§	F.P.	21.6	108½	96½	Gartmore High Inc	108		17.2	–	8.7	–
–	F.P.	18.7	108	101½	Do Zero Div Prf	106½		–	–	–	–
–	F.P.	10.9	360	245	Lowland Warrants	285	+7½	–	–	–	–
–	F.P.	61.9	77½	69	M Curie Cap Bst	77	+½	–	–	–	–
–	F.P.	295.5	90½	79	M Curie Portfolio	79½		–	–	–	–
–	F.P.	100.0	106½	92½	Mercury Asset Allocator	105½	+1	–	–	–	–
–	F.P.	286.1	252½	231	[illegible]	234	–1	–	–	–	31.7
–	F.P.	5.39	110½	107½	†NBA Quantum	110		W–	–	–	11.2
§	F.P.	19.6	165	155	Sherry FitzGerald	155		–	–	–	20.4
–	F.P.	11.5	157½	55½	†Sports Internet	131½	–2½	–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1999 High	1999 Low	Stock	Closing price p	+or-
12.5	Nil	4/5	1¼pm	1pm	Calluna	1¼pm	
375	Nil	16/4	30pm	9½pm	Holmes Place	16½pm	+2½
60	Nil	28/4	23pm	16pm	Mice	18pm	–3
6.5	Nil	30/4	1pm	½pm	Versailles	1pm	+½

FTSE GOLD MINES INDEX

	Apr 9	% chg on day	Apr 8	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (28)	[illegible]	+2.30	[illegible]	1249.25	2.12	887.57	1301.87	761.59
■ Regional Indices								
Africa (5)	978.82	–0.11	979.87	1283.42	4.23	998.31	1498.04	765.83
Australasia (6)	1058.76	+2.01	1037.87	1497.38	2.86	1073.97	1690.83	815.93
Americas (11)	787.01	+3.73	758.71	1212.46	0.92	790.32	1317.41	647.89

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Apr 12	Day's chge%	Euro Index	£ Stg Apr 9	£ Stg Apr 8	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6441.2	–0.5	7471.4	6472.8	6437.9	6105.5	2.14	1.66	28.12	64.72	2877.22
FTSE 250	5558.9	–0.1	6448.6	5563.5	5514.0	5529.3	2.84	1.95	18.05	49.78	2440.83
FTSE 250 ex Inv Co	5604.9	—	6501.4	5607.0	5552.5	5567.6	2.96	1.91	17.71	51.82	2472.51
FTSE 350	3056.8	–0.4	[illegible]	3069.9	[illegible]	2920.4	2.24	1.70	26.23	26.18	2701.25
FTSE 350 ex Inv Co	3065.0	–0.4	3555.2	3077.8	3059.7	2925.8	2.25	1.71	26.00	26.41	1435.65
FTSE 350 Higher Yield	2936.9	–0.7	3406.7	2957.1	2928.0	[illegible]	3.01	1.98	20.89	29.38	2300.52
FTSE 350 Lower Yield	3177.7	–0.2	3686.8	3183.3	3178.9	2992.4	1.44	1.94	34.84	22.41	2343.75
FTSE SmallCap	2417.86	–0.2	2804.61	2423.30	2420.75	2634.28	2.92	1.90	18.08	19.73	2153.75
FTSE SmallCap ex Inv Co	2384.05	[illegible]	2765.38	2388.12	2386.30	2625.94	3.12	2.00	16.06	20.25	2148.45
FTSE All-Share	2956.36	–0.4	3429.23	2968.79	2951.84	2844.25	2.27	1.71	25.70	25.27	2739.87
FTSE All-Share ex Inv Co	2968.54	–0.4	3443.37	2980.89	2963.77	2852.30	2.29	1.72	25.38	25.56	1415.67
FTSE Fledgling	1317.01	–0.2	1528.25	1320.30	1318.54	1410.30	3.00	1.24	[illegible]	8.65	1494.99
FTSE Fledgling ex Inv Co	1327.27	–0.1	1539.57	1328.89	1324.87	1428.67	3.40	1.28	22.94	10.76	1511.50
FTSE All-Small	1369.59	–0.2	1588.88	1372.63	1370.67	1486.89	2.94	1.76	19.40	10.65	1657.12
FTSE All-Small ex Inv Co	1376.39	–0.2	1596.43	1378.53	1376.83	1508.24	3.18	1.84	17.07	11.59	1676.42
FTSE AIM	881.4	+0.9	1022.4	873.3	870.3	1063.2	1.09	30.00†	0.12	2.50	810.21

■ FTSE Actuaries Industry Sectors

	£ Stg Apr 12	Day's chge%	Euro Index	£ Stg Apr 9	£ Stg Apr 8	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
RESOURCES(16)	4746.89	–0.5	5506.17	4769.09	4993.92	4709.81	2.04	0.83	80.15	26.99	2229.84
Mining(3)	3429.64	–1.0	3978.19	3462.47	3412.66	3142.89	3.47	1.66	16.48	69.75	1131.47
Oil & Gas(12)	5518.37	–0.4	6401.05	5541.48	5440.59	5279.16	2.55	0.48	80.00†	23.20	2661.01
BASIC INDUSTRIES(90)	2035.20	+0.7	2360.73	2020.80	1979.84	2208.75	3.94	1.78	14.23	28.32	1234.81
Chemicals(23)	2131.27	+2.9	2472.18	2071.70	2029.22	2905.78	4.30	1.28	18.50	40.77	1136.37
Construction & Bld Matls(50)	1852.16	–0.3	2148.44	1858.05	1831.00	1845.73	3.35	2.28	13.11	16.82	1042.83
Forestry & Paper(2)	5462.97	–0.3	6336.79	5481.28	4980.89	4709.81	5.64	1.74	10.18	26.99	2586.22
Steel & Other Metals(11)	2436.00	+0.2	2825.64	2431.29	2332.34	2067.26	7.74	1.13	11.49	22.18	1618.43
GENERAL INDUSTRIALS(76)	2053.29	–0.6	2381.72	2065.49	2038.08	2208.75	2.85	[illegible]	17.34	22.62	1243.40
Aerospace & Defence(8)	2486.50	+0.2	2884.32	[illegible]	2462.82	2067.28	1.83	[illegible]	17.17	22.59	1652.31
Diversified Industrials(4)	1088.86	—	1260.47	1087.06	1077.43	1434.64	5.35	0.81	23.17	15.44	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	8.00	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6463.8	6406.4	6425.7	6422.6	6388.2	6388.1	6415.8	6442.6	[illegible]	[illegible]	6377.2
FTSE 250	5562.7	5558.7	5553.3	5554.8	5550.1	5549.2	5545.8	5554.3	[illegible]	[illegible]	5545.8
FTSE SmallCap	2419.85	2419.93	2419.48	2418.35	2417.83	2417.59	2417.30	2417.33	2420.18	[illegible]	[illegible]
FTSE All-Share	2965.18	2943.69	2949.23	2935.93	2935.98	2935.56	[illegible]	[illegible]	[illegible]	[illegible]	2932.40

[illegible]

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	618	848	–27½
AMVESCAP	1,195	633½	+18½
ASDA Group	12,816	146½	+1¼
Abbey National	1,547	1344	–33
Alliance & Leicester	2,724	[illegible]	+17
Allied Domecq	6,232	487½	+11½
Allied Zurich	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Apr 12 / € = 13.7603 Sch)

BELGIUM/LUX (Apr 12) 1 € = 40.3399 Frs.

FINLAND (Apr 12) 1 € = 5.94573 Mka

FRANCE (Apr 12) 1 € = 6.55957 Frs.

GERMANY (Apr 12) 1 € = 1.95583 Dm.

IRELAND (Apr 12) 1 € = 0.78756 Punt

ITALY (Apr 12) 1 € = 1936.27000 Lire

NETHERLANDS (Apr 12) 1 € = 2.20371 Fl.

PORTUGAL (Apr 12) 1 € = 200.482 Esc.

SPAIN (Apr 12) 1 € = 166.386 Pts.

EUROPE (NON-EMU)

CZECH REP (Apr 12 / Koruna)

DENMARK (Apr 12 / Kr)

GREECE (Apr 9 / Drachmae)

NORWAY (Apr 12 / Kroner)

POLAND (Apr 12 / Zloty)

SWEDEN (Apr 12 / Kronor)

SWITZERLAND (Apr 12 / Frs.)

TURKEY (Apr 12 / Tk Lira)

PACIFIC

JAPAN (Apr 12 / Yen)

HONG KONG (Apr 12 / H.K.$)

INDONESIA (Apr 12 / Rupiah)

MALAYSIA (Apr 12 / MYR)

NEW ZEALAND (Apr 12 / NZ $)

SINGAPORE (Apr 12 / S$)

AUSTRALIA (Apr 12 / Aust$)

SOUTH KOREA (Apr 12 / Won)

TAIWAN (Apr 12 / TW $)

THAILAND (Apr 12 / Baht)

AMERICAS

CANADA

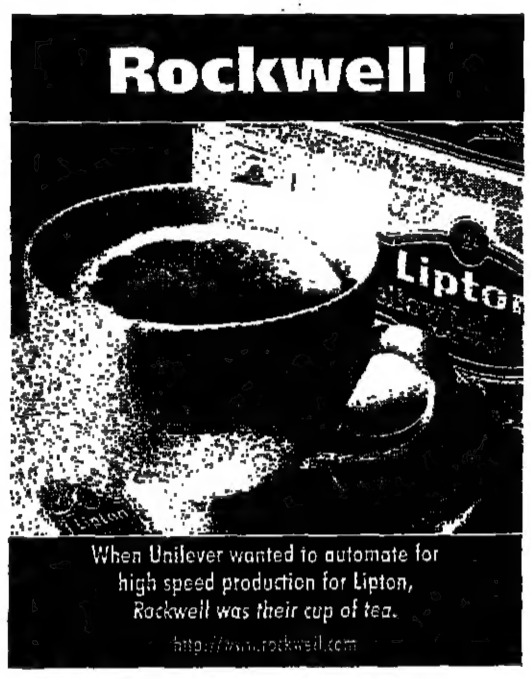
TORONTO (Apr 12 / Can $) 3:30 pm

MONTREAL (Apr 12 / Can $) 3:30 pm

MEXICO (Apr 12 / Peso) 12.30pm

AFRICA

SOUTH AFRICA (Apr 12 / Rand)



FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY APRIL 9 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY APRIL 8 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	219.51	0.9	202.88	168.02	234.54	231.93	0.1	3.25	217.56	200.24	166.31	231.23	231.73	219.98	163.86	215.20
Austria (21)	185.09	0.4	170.91	141.68	174.51	174.51	0.9	2.02	184.44	169.75	140.99	172.97	172.97	259.73	165.27	222.30
Belgium (22)	372.10	-0.2	343.58	284.83	343.48	343.48	0.4	1.96	372.68	343.01	284.88	342.20	342.20	446.95	319.89	320.83
Brazil (29)	148.23	-1.0	136.87	113.46	158.38	465.88	-1.8	4.52	149.88	137.76	114.42	159.09	474.57	269.34	89.32	264.13
Canada (113)	220.98	-1.5	204.04	169.15	236.12	240.81	-1.1	1.63	224.34	206.48	171.49	238.44	243.31	248.78	159.94	243.21
Denmark (34)	443.22	0.4	409.25	339.27	473.58	415.75	0.9	1.78	441.50	406.35	337.49	489.24	411.90	537.33	406.62	516.50
Finland (29)	719.62	2.8	664.46	550.84	833.20	833.20	3.4	1.40	700.03	644.29	535.11	808.23	806.23	719.62	338.49	390.98
France (74)	331.62	0.5	306.20	253.84	316.82	316.82	1.1	1.94	329.93	303.66	252.20	313.34	313.34	354.45	253.86	302.58
Germany (55)	260.96	0.5	240.95	199.75	246.21	246.21	1.0	1.61	258.73	239.05	198.54	243.76	243.76	325.61	228.35	284.65
Greece (36)	425.56	-0.4	392.94	325.74	454.70	917.92	0.0	1.21	427.47	393.43	326.76	454.33	917.92	454.89	211.47	-
Hong Kong, China (66)	344.88	2.1	318.45	263.98	368.50	343.08	2.1	3.30	337.74	310.85	258.17	358.97	335.96	344.88	196.64	341.67
Indonesia (24)	47.94	6.3	44.26	36.70	51.22	257.38	6.4	1.13	45.11	41.52	34.48	47.94	241.79	64.52	19.04	60.43
Ireland (14)	538.71	-1.2	497.42	412.36	554.71	554.71	-0.7	1.85	545.36	501.94	416.88	558.60	556.60	605.85	396.15	517.05
Italy (53)	171.15	-1.7	158.03	131.01	229.85	229.85	-1.2	1.51	174.10	160.24	133.08	232.37	232.37	192.64	128.68	165.82
Japan (443)	115.58	-0.6	106.72	88.47	123.49	88.47	-0.5	0.83	116.33	107.06	88.92	123.64	88.92	116.33	76.83	100.63
Mexico (29)	1559.88	-0.4	1440.31	1194.02	1666.71	16355.64	0.8	1.56	1586.51	1441.79	1197.46	1664.96	16228.22	1733.73	787.15	1641.41
Netherlands (26)	489.84	-0.5	452.30	374.95	457.16	457.16	0.0	2.09	492.27	453.08	376.30	457.01	457.01	562.73	394.92	500.42
New Zealand (18)	64.63	3.7	59.67	49.47	69.05	64.21	-3.0	3.73	62.31	57.35	47.63	68.22	62.36	76.03	45.68	74.52
Norway (37)	239.85	0.4	221.46	183.59	258.27	253.57	0.5	1.94	238.99	219.97	182.69	254.01	252.24	357.71	181.86	340.21
Philippines (22)	94.92	0.0	87.65	72.68	101.42	182.24	0.0	0.81	94.91	87.35	72.55	100.88	182.24	101.69	42.48	100.36
Portugal (18)	233.02	-0.3	215.16	178.37	296.70	296.70	0.2	1.10	233.70	215.10	178.65	298.00	296.00	299.39	194.13	-
Singapore (40)	240.83	1.6	222.38	184.35	257.33	182.31	-1.8	1.40	236.98	218.11	181.15	251.87	188.89	240.83	102.45	225.98
South Africa (34)	209.44	2.7	193.38	160.31	223.78	288.37	-2.2	3.40	204.00	187.76	155.94	216.82	277.26	348.20	151.55	324.04
Spain (30)	378.88	-0.5	349.84	290.02	443.15	443.15	-0.0	1.59	380.93	350.67	291.19	443.19	443.19	435.19	290.81	392.54
Sweden (41)	551.49	0.1	509.16	422.09	589.20	676.16	0.2	2.00	551.05	507.18	421.23	585.69	674.73	828.19	379.18	584.76
Switzerland (30)	399.23	-0.2	368.63	305.59	426.57	367.55	0.7	1.16	400.17	368.31	305.90	425.32	365.14	441.65	307.73	400.23
Thailand (26)	25.78	0.4	23.81	19.74	27.55	37.98	0.8	2.19	25.88	23.64	19.63	27.30	37.68	28.11	8.15	27.76
United Kingdom (201)	405.32	0.3	374.25	310.26	433.08	374.25	0.6	2.27	404.27	372.08	309.03	429.67	372.08	405.32	307.96	399.24
USA (607)	555.69	0.3	513.10	425.36	593.75	555.69	0.3	1.20	553.84	509.74	423.36	588.64	553.84	555.69	390.12	453.81
Americas (778)	494.04	0.3	456.17	378.16	527.87	419.11	0.3	1.23	492.76	453.53	376.87	523.73	417.96	494.04	347.59	411.34
Europe (721)	362.50	0.1	334.72	277.48	387.33	349.40	0.5	1.88	362.27	333.43	276.93	385.04	347.52	386.24	282.63	358.16
Eurobloc (342)	102.05	0.0	94.23	78.12	104.21	104.21	0.5	1.76	102.07	93.95	78.08	103.88	103.88	113.92	81.53	-
Nordic (141)	538.65	1.0	495.52	410.78	573.41	588.29	1.3	1.77	531.29	489.00	406.13	564.69	580.78	555.97	380.04	509.11
Pacific Basin (714)	123.36	-0.2	113.91	94.43	131.81	97.09	-0.2	1.28	123.62	113.77	94.49	131.29	97.25	123.62	82.88	111.25
Euro-Pacific (1435)	222.48	0.0	205.44	170.31	237.73	191.82	0.3	1.69	222.54	204.82	170.11	236.53	191.21	222.54	166.00	214.17
North America (720)	533.01	0.3	492.18	408.00	589.52	533.93	0.3	1.21	531.58	489.25	406.34	564.98	532.42	533.01	374.92	440.39
Europe Ex. UK (520)	330.08	0.0	304.78	252.68	352.89	327.02	0.5	1.88	330.23	303.94	252.43	350.99	325.34	368.32	260.93	326.88
Europe Ex. Eurobloc (379)	101.73	0.2	93.93	77.87	108.68	104.92	0.6	2.01	101.58	93.49	77.65	107.96	104.32	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (178)	98.49	-0.1	90.94	75.39	105.23	100.45	0.5	1.41	98.61	90.76	75.38	104.80	99.91	109.21	75.16	-
Pacific Ex. Japan (271)	201.49	1.6	186.05	154.23	215.29	206.65	1.2	3.07	198.32	182.54	151.60	210.79	204.11	206.83	128.26	206.83
World Ex. Eurobloc (1905)	114.80	0.2	106.00	87.88	122.67	114.58	0.3	1.38	114.80	105.48	87.60	121.81	114.28	114.80	83.09	-
World Ex. US (1640)	222.59	-0.1	205.53	170.38	237.84	197.45	0.3	1.72	222.76	205.02	170.28	236.76	198.93	222.76	165.95	216.02
World Ex. UK (2046)	322.87	0.1	297.93	246.99	344.76	293.67	0.3	1.34	322.24	298.58	246.32	342.49	292.88	322.67	236.11	284.04
World Ex. Japan (1804)	436.71	0.2	403.24	334.28	466.62	433.47	0.4	1.51	435.65	400.97	333.02	463.03	431.75	436.71	320.58	389.94
The World Index (2247)	329.81	0.2	304.53	252.46	352.40	301.13	0.3	1.44	329.33	303.11	251.74	350.03	300.22	329.81	242.36	293.78

Emerging markets:

IFC investable indices

Dollar terms

Apr 9 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	831.57	-0.8	+4.3
Brazil	304.94	-1.1	+10.9
Chile	553.62	+0.7	+22.7
Colombia[1]	374.51	-0.7	-14.8
Mexico	846.10	-0.6	+34.2
Peru[2]	143.88	+0.3	+7.1
Venezuela[3]	367.29	-0.8	-18.0
East Asia			
China[4]	26.63	+1.8	+1.7
India[7]	71.73	-2.8	+11.7
Indonesia[8]	24.16	+6.0	-0.2
Korea[9]	63.97	+1.4	+20.7
Malaysia	86.39	+2.5	-2.4
Pakistan[9]	102.36	-1.1	+6.2
Philippines	131.50		+8.8
Sri Lanka[10]	67.95	-0.1	-17.5
Taiwan, China[8]	134.27	+0.1	+15.9
Thailand	64.26	+1.8	+1.7
Europe			
Czech Rep	44.90	-1.9	-11.5
Greece	768.92	-0.4	+23.8
Hungary[11]	254.01	+0.7	-8.5
Poland[12]	551.47	+0.3	+5.3
Russia	32.47	-6.0	+38.5
Slovakia	32.56	-1.8	-25.3
Turkey[14]	219.97	-3.2	+50.3
Mideast/Africa			
Egypt	71.04	-0.1	+10.2
Israel	125.24	+0.1	+22.5
Jordan	229.41		+5.9
Morocco	152.11	-1.4	-9.3
S Africa[15]	144.33	+1.8	+15.3
Zimbabwe[16]	131.95	-0.8	+25.3
Regions			
Composite	215.26	+0.1	+15.3
Latin America	494.09	-0.5	+17.7
Asia	121.44	+0.8	+13.5
EMEA	130.30	-0.1	+14.0
Europe	171.07	-1.4	+14.2
Eastn Europe	60.03	-1.4	+3.3
ME & Africa	61.22	+1.2	+14.2
Comp + Malay	218.16	+0.2	+14.1
Asia + Malay	119.09	+1.0	+10.2

3:30 pm April 12

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

1999 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chg Prev. Close
2⅞	2⅛	ECC Intl				12	2⅝	2⅝	2⅝	
30⅛	25½	EG&G	0.56	2.0	12	1060	27⅞	27	27¾	+⅝
33½	20⅛	Eastgroup	0.16	0.8	18	2230	21⅜	20⅞	21⅛	-⅛
31⅝	26⅝	East Utils	1.66	5.7	17	155	29	28⅝	29	+½
44	35⅞	E Enterpr	1.88	4.8	16	385	37	d35⅞	38⅝	+⅞
48⅝	40⅛	EastCh	1.76	4.2	13	2546	42⅛	40⅞	41⅞	+⅞
80⅝	60⅞	EKodak	1.76	2.8	14	6722	63⅞	62⅝	63⅛	+⅛
77⅞	62	Eaton	1.76	2.2	16	5516	u81⅛	76⅛	79⅛	+1⅝
41⅛	34⅜	Ecolab x	0.42	1.1	32	2692	37⅛	36⅝	37	
39⅞	21⅝	Edisnint x	1.08	4.6	12	4530	23½	23½	23⅞	-½
41	30⅞	EdwdAG	0.60	1.7	11	2235	35⅛	33⅞	35	+⅛
4⅛	3⅛	Elco Group				90	3⅛	3⅛	3⅛	+⅛

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1999 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chg Prev. Close
63	51	Xerox	0.80	1.4	23	14100	59⅛	57⅛	58⅞	-⅛
77¼	56⅞	XI Cap	1.76	3.0	9	2654	59⅝	58⅞	58⅞	-⅛
43½	37½	Xtra Corp			8	302	38⅞	38⅜	38⅞	-⅛
29⅛	22⅞	Yankee Egy	1.38	5.5	22	178	25	24	25	+⅞
47⅝	33⅝	York Int	0.60	1.7	10	974	35⅛	34⅞	35⅛	+⅛
15⅞	8⅛	Zapata			4	5577	12⅞	9⅛	12⅛	+3⅛
26	20⅞	Zenith Nat	1.00	4.2	16	56	23⅞	23⅞	23⅞	
6⅛	5⅞	Zweig Inc	0.67	11.4		243	5⅞	d5⅞	5⅞	-⅛
11⅞	10⅛	ZweigFd x	1.20	11.6		848	10⅝	10⅞	10⅝	-⅛
8⅞	8⅛	Zweig Toll x	0.84	10.1		515	8⅛	8⅛	8⅛	

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1999. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 9	Apr 8	Apr 7	1999 High	1999 Low	Since compilation High	Since compilation Low
Industrials	10173.84	10197.70	10085.31	10197.70 (8/4)	9120.67 (22/1)	10197.70 (8/4/99)	41.22 (8/7/32)
Home Bonds	104.51	104.40	104.08	105.88 (13/1)	103.95 (1/4)	107.17 (8/12/98)	54.99 (1/10/81)
Transport	3370.40	3329.40	3339.87	3433.07 (18/3)	3063.80 (22/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	288.33	287.11	282.37	311.91 (4/1)	286.44 (12/2)	328.91 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 10288.71 (10282.88) Low 10035.09 (9980.88) (Theoretical)
Day's high 10212.13 (10288.08) Low 10084.47 (10058.78) (Actual)

Standard and Poors	Apr 9	Apr 8	Apr 7	1999 High	1999 Low	Since compilation High	Since compilation Low
Composite‡	1348.35	1343.98	1326.89	1348.35 (9/4)	1212.19 (14/1)	1348.35 (9/4/99)	4.40 (1/6/32)
Industrials‡	1622.34	1618.98	1597.20	1622.34 (9/4)	1451.72 (14/1)	1622.34 (9/4/99)	3.52 (30/6/32)
Financial‡	147.53	147.88	144.87	147.53 (9/4)	123.72 (8/2)	147.88 (14/7/98)	7.13 (4/8/74)
Others							
NYSE Comp.	628.58	624.28	616.23	628.58 (9/4)	576.62 (8/2)	628.58 (9/4/99)	4.64 (25/4/42)
Amex Comp	727.50	721.83	717.30	727.50 (9/4)	663.61 (4/1)	763.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2593.06	2573.39	2544.43	2593.65 (9/4)	2208.05 (4/1)	2593.65 (9/4/99)	54.87 (3/10/74)
Russell 2000	405.86	399.89	397.77	423.13 (11/1)	383.37 (23/3)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Apr 9	Apr 2	Mar 26	Year ago
Dow Jones Ind. Div. Yield	1.56	1.61	1.61	1.56
	Apr 7	Mar 31	Mar 24	Year ago
S & P Ind. Div. yield	1.07	1.11	1.13	1.33
S & P Ind. P/E ratio	41.83	40.39	39.72	30.27

US DATA

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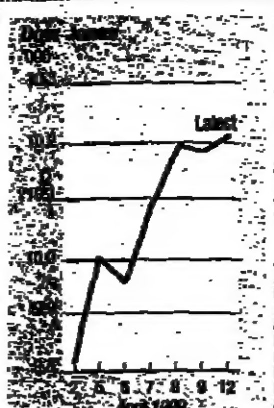


JAPAN

[illegible]

GERMANY

[illegible]

FRANCE

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1308.50	1343.50	-14.70	1362.50	1339.80	76,084	365,288
Sep	1351.00	1351.00	-20.10	1351.00	1351.00	150	5,055

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	16750.0	16560.0	-290.0	16790.0	16520.0	30,087	210,579
Sep	16890.0	16560.0	-500.0	16890.0	16560.0	4	5,447

CAC-40 (20F x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	4339.0	4336.0	-14.0	4376.0	4316.0	49,992	109,348
May	-	4351.0	-14.0	-	-	9	-
DAX							
Jun	5104.0	5170.0	-2.0	5218.0	5095.0	49,692	310,582
Sep	5155.0	5204.0	-1.0	5218.0	5155.0	121	1,399

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	763.00	759.00	-7.00	764.50	752.00	20,767	107,873
May	760.00	758.00	-7.75	761.00	750.00	3,888	3,401
EUREX							
Jun	7240.0	7271.0	-82.0	7328.0	7225.0	23,521	107,522
Sep	7299.0	7244.0	-108.0	7325.0	7244.0	85	3,857

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

3:30 pm April 12

[illegible]

AMEX

3:30 pm April 12

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Global IT issues feel impact of Compaq

WORLD OVERVIEW

Investor concerns about a severe correction on Wall Street as a result of Friday's profits warning from Compaq, the global leader in computer hardware, duly dented Asian equities but proved less damaging in Europe, *writes Jeffrey Brown.*

Compaq crashed 25 per cent against its close on Friday when Wall Street opened and was still more than 20 per cent lower when the European trading day ended. But by then, US equities overall had steadied and most bourses were little changed.

Paris, which had flirted with 1999 closing peaks on Friday, shed a modest 0.3 per cent while Frankfurt, off 70 on the Xetra Dax at one stage, finished with a net gain of 0.7 per cent.

The main problem with the Compaq bombshell, a warning of first-quarter results coming in at less than half the consensus forecast, looked to be in its timing as much as its message for the much-vaunted US technology sectors. Figures from other tech leaders are imminent, notably from Intel and Motorola today.

Helsinki was the main European casualty, sliding 2 per cent in the wake of a near 3 per cent fall for Nokia which makes cellular phones but is invariably badly mauled by any bad news relating to the electronics industry.

Last week's cut in interest rates by the European Central Bank, which sliced a deeper-than-expected 50 basis points off its refinancing rate to 2.5 per cent, prompted a rash of positive notes from strategists.

Merrill Lynch has begun to sketch in the possibility of a modest global synchronised recovery "if the US remains strong, Japan's economy starts to stabilise and the worst of the bad industrial newsflow in Europe is behind us".

The broker suspects that both economic and corporate profits growth will be an "increasingly plentiful commodity" by the second half of 1999. "We may be within three months of seeing the turn in the European cycle," it believes.

Lehman Brothers, too, is upbeat, but mostly taking its cue from the relative attractions of cross-border sector comparisons. Relative to US equities, continental Europe and the UK "offer the best relative value in a decade", says Lehman global strategist, Edwina Neal.

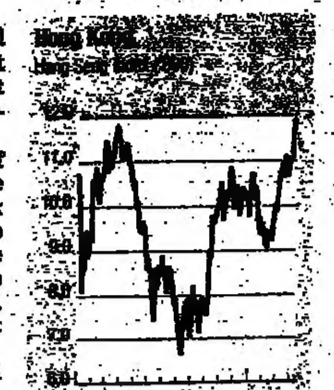
Mark Howdle at Salomon Smith Barney is a shade more circumspect on the basis that low euro-zone rates are no friend to the embattled euro. Given currency weakness, any stimulation to investment inflows "seem at least one or two quarters away".

MARKET FOCUS

Optimism holds sway in HK

Hong Kong has just emerged from one of its gloomiest reporting seasons in recent memory and the stock market is racing.

Since a low for the year of 9,146 on February 10, the benchmark Hang Seng index surged 30 per cent to close last Friday at 11,914. The rapid rise prompted a spate of profit taking yesterday, when the index closed at 11,744.74.



Hong Kong's new-found euphoria owes less to matters like corporate earnings or the potential for a further rise in non-performing loans in the banking sector and more to Wall Street-imported bullishness and a belief that Asia's recovery is starting to unroll.

Morgan Stanley Dean Witter is among those now overweight in Hong Kong, basing its shifting of assets on a belief the bad news is already in the market, the overall tax bill has shrunk due to cuts in wages and bonuses, and valuations are attractive.

Many fund managers who took advantage of the government's unprecedented intervention in the stock market in August last year to sell out now appear to share Morgan Stanley's view. The focus has returned to the upside – the good news like China's moves to accede to the World Trade Organisation rather than problems with decelerating economic growth and rising debts across the border.

Potential problems in the banking sector appear to have faded in comparison with the high hopes for HSBC Holdings, the global banking giant that dominates the Hang Seng index.

HSBC's share price has gained HK$74 to HK$265 since it unveiled plans to seek a listing on the New York Stock Exchange, supplementing those on London and Hong Kong.

Red chips, the mainland-backed companies that were in huge demand in 1997 but have since often proved to be repositaries of bad investments, were among those benefitting from the WTO hopes late last week.

Just a few months ago, China-related stocks saw their prices pummelled by concerns over their debts and fears that the renminbi may devalue, despite official assurances to the contrary.

Property has also had a return to favour in recent weeks. Home prices are at roughly half the pre-crisis levels of late 1997 and, despite growing unemployment, sentiment on the sector is turning.

Recent sales have been enjoyed healthy take-up and banks are competing aggressively with ever-cheaper mortgages. Icing the cake, the banks on Friday trimmed lending rates by 0.25 per cent to 8.50 per cent, taking the cost of borrowing back to the levels seen before the Asian crisis washed up on Hong Kong.

"It's a great market if you want to own your own apartment," says Adrian Ngan, head of Hong Kong research at BNP Prime Peregrine.

Ngan is forecasting growth in the second half of 10 to 15 per cent for property prices and this will feed through to the share prices of the developers.

Louise Lucas

Dow rides out technology storm warning

AMERICAS

Compaq Computer's warning late on Friday did not rock the broader US equity market as hard as some had feared and most blue-chip shares pushed ahead in early trading, *writes John Labate in New York.*

A series of upgrades in other sectors helped to bolster confidence as the earnings reporting season got underway. The Dow Jones Industrial Average was 48.56 higher by early afternoon at 10,222.40. The other main indices were mostly lower, with the broader Standard & Poor's 500 index down less than 1 point at 1,347.63. The Nasdaq composite index, which is weighted in high-tech shares, was off less than 1 point at 2,592.17.

Compaq's warning its forthcoming earnings would be less than half of what analysts were expecting sent an initial shockwave through the market, especially computer stocks. By midday yesterday Compaq's shares were the most actively traded on the NYSE and tumbled more than 21 per cent or $6¾ to $24⅛.

"It's a major disappointment when a company of that size fools the analysts that much, but people are taking it as a stock – or sector – specific event," said Arthur Hogan, chief market analyst at Jefferies & Company in Boston.

All key computer makers were lower. Dell Computer shed 5 per cent at $41⅞ and Hewlett-Packard was off $3⅛ or more than 4 per cent to $66⅛. A downgrading by analysts at Salomon Smith Barney helped put Gateway 2000 shares under pressure. It was off $4¼ or more than 6 per cent to $70⅛.

Semiconductor shares were mostly lower, with industry leader Intel down 3\frac{11}{16}$ to 61\frac{11}{16}$ after Robertson Stephens cut the stock to "long-term attractive". Although the two computer stocks in the Dow, IBM and Hewlett-Packard, put pressure on the blue-chip index, several other index components made strong showings.

Farm equipment producer Caterpillar rose $2⅝ or more than 4 per cent to $51⅛ after Merrill Lynch upgraded the stock to "accumulate" from "intermediate-term neutral". International Paper was 4 per cent or 1\frac{13}{16}$ higher at $46 after BT Alex Brown raised its rating to "buy" from "market perform" and set a target price of $55.

Small-company shares were mostly higher, with the Russell 2000 index 2.15 stronger at 408.01.

TORONTO recovered some strength after dipping about one per cent in early trading following Compaq's profit warning late on Friday. The 300 composite index was trading 12.23 or 0.2 per cent higher to 6,902 at midsession, tracking a late recovery on Wall Street.

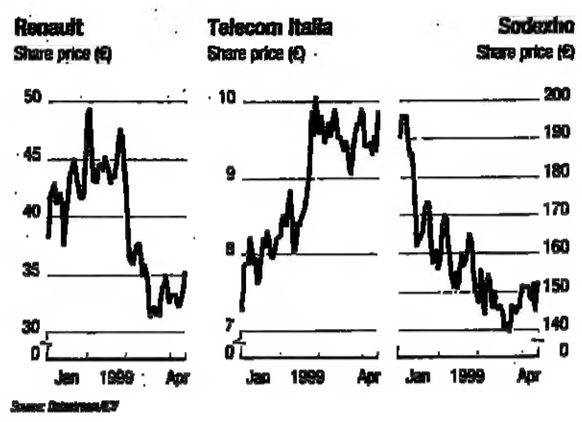
Gold stocks outperformed the market, buoyed by a rise in gold prices in New York. Barrick Gold was trading 95 cents higher to C$26.25 in early trading.

Among those companies lagging behind were telephone giant BCE, down C$1 to C$73.95, and industrial stock Newbridge Networks, off 90 cents to C$48.25.

Frankfurt regains its poise

EUROPE

Shares in **FRANKFURT** reversed early losses, clawing back from a session low of 5,064.63 on the Xetra Dax index to close with a gain of 33.63 at 5,167.55.



Deutsche Bank was heavily traded, meeting with selling as the subscription period for the shares that the bank is issuing to partly finance the $9.7bn takeover of Bankers Trust of the US. The stock fell to a low of €48.65 before settling at €48.97, off €1.53.

Deutsche Telekom gained 35 cents to €40.60 ahead of first-quarter figures due on Thursday.

Software leader SAP suffered Compaq fallout, slipping €5.83 to €282.67. Sportswear specialist Adidas fell €1.40 to €76 after warning of steeply lower first-quarter earnings.

The FTSE Eurotop 300 index fell 4.91 or 0.38 per cent to 1,289.63. See Euro Prices page.

Henkel powered ahead, rising €1.40 to €68.70 after an upgrade to by from hold to "buy" at Commerzbank.

PARIS started weaker, but recouped some losses by mid-session as Wall Street opened down but stronger than expected. The CAC-40 lost 8.14 or 0.2 per cent to 4,355.

Weapons and publishing conglomerate Lagardère rose 41 cents to €30.71 after offeringto buy the 55 per cent of broadcaster Europe 1 it does not hold for €290 per share.

News of the offer sent media and publishing shares soaring. Hachette Filipacchi Media rose €10.80 or 5 per cent to €225.80. SPIR Communication rose €1.90 or 3.5 per cent to €57.

Pernod-Ricard, the wine and spirits group, fell €2.50 or 4.3 per cent to €56 after a court ruling on Friday upheld the government's block on its $840m sale of Orangina to Coca-Cola.

Renault rose €1.90 or 5.6 per cent to €35.60 after Louis Schweitzer, chairman, suggested it could sell its stake in Nissan Diesel Motor, the truck maker affiliated with Nissan where Renault owns 36.8 per cent.

Sodexho Alliance rose €6.80 or 4.7 per cent to €152. The hotel and catering group, which reported disappointing first-half sales last week, was still about 20 per cent lower than its early January level. Traders said the stock might be benefiting from bargain-hunting after this year's sharp fall.

AMSTERDAM pared early losses to close off 1.56 at 536.17 on the AEX index after touching a low for the session of 531.25.

Wall Street's early weakness hit technology stocks. ASM Lithography shed €1.35 at €43.40 and Philips, brushing off an upgrade to "trading buy" at Goldman Sachs, retreated €1.30 at €72.70.

Elsevier stayed in demand as rumours of imminent corporate activity surrounded the media group. The shares added 30 cents or 2.2 per cent at €14.25.

ZURICH trimmed its losses on a day in which much of the action was seen in smaller stocks. By the close, the SMI index was 34.0 lower at 7,352.9.

Clariant, rumoured to be close to launching a bid for Laporte, the UK speciality chemicals company, edged SFr2 higher to SFr725. Laporte said it was in talks over a possible takeover of the company.

Distefora, a sharp riser in recent sessions after the company took over two internet access providers, finished SFr2.50 easier at SFr109, having picked up from a low of SFr93.

Construction related stocks also outperformed, led by ZZ Holding which shot up SFr95 to SFr1,195. as news that the group had sold its bricks activities for SFr140m was seen as further proof the roof tile maker was turning into a conglomerate.

MILAN turned negative at midday as investors prepared for a sell-off on Wall Street. The Mibtel index turned back from a high of 25,187 to close 156 lower at 24,924.

Telecom Italia soared 5.5 per cent to €9.89 as Olivetti's chances of winning its $65bn takeover bid battle were seen to be increasing after Telecom failed to gather enough shareholders to approve its defence strategy.

Speculation that Telecom might be looking for a white knight – rujmoured to be British Telecom – also helped boost the stock. Olivetti was little changed at €2.89.

Insurer INA also bucked the market, rising 1.3 per cent to €2.72 as press reports suggested Generali was preparing a bid. Generali edged 0.4 lower to €37.80 as the group said it had taken no decision on acquisitions.

HELSINKI led the losers in Europe, with the Hex index closing 156.44 or 2.2 per cent lower after hitting a life high last week.

Nokia suffered from Compaq's profit warning and worries about technology stocks ahead of results from Motorola and Intel today. The stock closed €1.80 or 2.9 per cent lower to €76.45.

Among the shares hit by the news, telecom operator Sonera closed 36 cents lower to €15.49, while data services group Tieto retreated €1.19 to €37.60

Merita lost some ground after rising last week on hopes of an interest rate cut. The share closed 21 cents lower to €5.01.

STOCKHOLM fell 1 per cent following the resignation of finance minister Erik Asbrink, who blamed lack of support from prime minister Goran Persson. The general index ended 34.93 lower to 3,524.90.

Market heavyweight Ericsson fell in line with other European high-tech stocks, shedding SKr4.5 or 2.1 per cent to SKr209.50.

Written and edited by Michael Morgan, Bertrand Benoit and Paul Gregan

Wall St profits alert short-circuits Bovespa

SAO PAULO fell sharply in early trading, as Compaq's profit warning in the US took its toll.

The Bovespa index was 296 or 2.6 per cent lower to 11,032 at midsession, after rising to 11-month highs last week.

Telesp Participacoes, the holding company for telecom company Telesp, was 2.4 per cent lower on reports that Telesp had failed to pay bills owed to a São Paulo security company.

MEXICO CITY was unchanged at midsession, having recovered from earlier losses suffered in the wake of a soft opening in US shares on Wall Street.

The IPC index was trading 0.62 higher at 5,204.26, tracking a recovery in New York.

CARACAS lost ground, with the IBC index shedding 69.27 or 1.6 per cent to 4,142.81.

Investors were nervous ahead of a decision by congress on whether to grant President Hugo Chávez expanded powers to tackle the country's economic crisis.

Rand and all share improve

SOUTH AFRICA

A firmer rand added spark to hopes for a further cut in official interest rates and sent shares in Johannesburg ahead in good trading volumes.

The all share index ended 24.2 higher at 6,498.2. The industrial sector added 19.9 to 7,436.8.

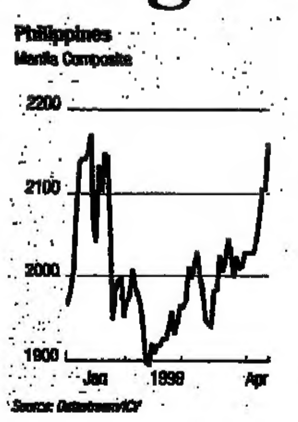
Reunert, the arms to electronics group, jumped 10.6 per cent on takeover moves.

Golds led the sector charts rising 69.3 or 2.4 per cent to 2,912.2.

High-techs give Tokyo low day

ASIA PACIFIC

Shares in *TOKYO* called a halt to a six-session winning streak after investors lost their nerve in the wake of a shock at Compaq Computer, *writes Michiyo Nakamoto.*



The Nikkei 225 average fell 2.1 per cent to close down 348.23 at the day's low 16,507.40. The index had traded as high as 16,797.08. The broader-based Topix index of all first-section stocks fell 26.71 to 1,316.20 while the broader Nikkei 300 lost 5.85 to 262.77.

The apparent trigger for the fall was Compaq's announcement on Friday that it had cut its earnings forecast.

Investors were also keen to take profits after the Nikkei's strong rise last week during which it briefly topped 17,000.

Volume was sharply lower at 603.64 compared with 1.24bn on Friday. Advancing issues were outnumbered by declining ones by 851 to 359 and 117 issues were unchanged.

Technology issues were particularly subject to profit-taking. Toshiba dropped Y20 to Y850 and NEC lost Y55 to Y1,400. Sony dropped Y360 to Y12,000.

Yahoo! Japan, which has risen spectacularly, closed down Y9.5m at Y50.5m on the over-the-counter market. The stock, which has a face value of Y50,000 yen, fell Y14m at one point during the day.

Financial issues were down. However, the impact on the market of the failure of a small regional bank was restricted. Nomura Securities declined Y17 to Y1,391 and Sakura Bank lost Y14 to Y378.

MANILA parted company with the rest of the region to close sharply higher for the eighth session running, boosted by liquidity flowing into the market in the wake of a fresh interest rate cut. The composite index added 52.20 or 2.5 per cent to 2,157.08.

Traders said a cut in overnight rates by the central bank, the ninth this year, had freed liquidity for banks, which are now turning to the stock market for investment opportunities.

Bank stocks were strong, with Metropolitan Bank and Trust adding 12.50 pesos to 332.50 pesos, and Philippine National Bank up 5.5 pesos to 68 pesos.

SYDNEY moved lower as investors fretted about the outlook for Wall Street in the wake of Friday's profit-warning from computer giant, Compaq.

On-line broker E*Trade fell 78 cents to A$6.66 while shares with a big US investor base also lost ground, notably News Corp, which retreated 33 cents to A$13.80. The All Ordinaries index finished off 21.8 at 3,038.2.

WELLINGTON gave up more than half Friday's strong gains, but trading volume was minimal at NZ$45.3m. NZ Telecom shed 25 cents at NZ$9.25 and at the end of the session the 40 capital, up 2.3 per cent on Friday, was 29.84 or 1.4 per cent lower at 2,141.26.

KARACHI tumbled 2.8 per cent on uncertainty about whether Pakistan would respond to India's Agni missile test on Sunday.

The KSE-100 index lost 28.67 to 993.17, the first time the measure had fallen below the 1,000 level since March 5.

BOMBAY was unmoved by the test, with investors instead concentrating on domestic political tensions. However, the BSE-30 index overcame early weakness to close 22.58 higher at 3,463.77, as some demand was seen from institutional investors and local speculators.

The Bharatiya Janata party-led coalition government is facing the threat of withdrawal of support by a key southern-based ally, which has led to fears of a no-confidence motion when parliament opens on Thursday.

The government has started talks with another regional party for support, but the market is adopting a wait-and-see approach.